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MONEY MARKET IN JULY

The money market during the past month has witnessed a moderate reversal of the trends which prevailed during the greater part of the first half of 1945. After showing a generally upward trend for several months, prices of Treasury securities, which have been the dominant element in the market for several years, receded somewhat after the opening days of July, and yields rose correspondingly.

Demand for the new securities issued in the Seventh War Loan drive proved active when trading started on July 2. All the marketable securities were traded at premiums, which for the 1½, 2¼, and 2½ per cent Treasury bonds were relatively substantial. Bank demand for outstanding intermediate term taxable bonds was strong, and was reported to have been met by insurance companies and savings banks which switched into the longer term taxable issues, including those offered in the Seventh drive.

During the statement week ended July 11, some weakness appeared in Treasury bonds which was accentuated after July 16 and continued during most of the remainder of the month. This weakness was attributed first to rumors of an early peace in the Pacific, which also started a wave of selling in the stock market, and then to discussions in the press of the possibility that the differential rate at which the Federal Reserve Banks advance funds to member banks on the security of Government obligations maturing in one year or less might be raised from ½ to ¾ of one per cent, or eliminated, leaving only the regular discount rate of 1 per cent. The feeling that sizable amounts of Seventh War Loan securities carried on bank credit might be overhanging the market was probably a factor also. The easing of prices extended to other sections of the Government security market and Treasury certificates of indebtedness and Treasury notes, which earlier in July were particularly strong, also declined.

Premiums on the 1½ per cent bonds issued in the Seventh drive dropped from a high point of 1 11/32 on July 2 to 1 2/32 on July 27, on the new 2¼'s from 1 20/32 on July 16 to 30/32, and on the new 2½'s from 1 22/32 to 1 5/32 (based on closing bid prices). The quotation on the August 1, 1945 maturity of certificates fell from a premium of 20 cents per thousand dollars on July 16 to a zero yield on the 23rd. For the most part, the recession in Government security prices reflected a withdrawal of buyers from the market rather than any substantial increase in selling, and trading was light.

In the period of strength in the Government security market during the early part of July, brokers and dealers and others liquidated substantial amounts of securities purchased on credit during the drive and so were able to reduce their bank borrowings. The liquidation continued at a somewhat slower pace in subsequent weeks. In the two weeks ended July 18, the decline in loans on Government securities came to about 20 per cent of the increase during the drive. Of the approximately 500 million dollar reduction in such loans at all weekly reporting member banks, brokers and dealers accounted for about 300 million; more than 365 million of the total reduction occurred at weekly reporting member banks in New York City, which reported further loan repayments of 142 million in the week ended July 25.

Postdrive bank demand for Treasury bonds was active, and in the three weeks ended July 18, the weekly reporting member banks made net purchases amounting to 530 million dollars. (Some part of the acquisitions in the first week, however, probably reflected the limited bank purchases of War Loan bonds which the banks were permitted to make for investment of their time deposits.) These institutions also acquired 141 million dollars of Treasury notes and 53 million dollars of certificates of indebtedness during the week of July 3, but made small net sales in the two subsequent weeks, probably reflecting adjustments in their reserve positions.

The market for corporate bonds was somewhat irregular during July. High grade bonds were steady until the latter part of the month when they turned slightly easier, probably reflecting in part the unusually heavy volume of flotations of new securities. Lower grade issues moved somewhat in consonance with stock prices.

Bank Credit in the Seventh War Loan

As usual a substantial volume of bank credit was used, directly or indirectly, in payment for securities sold during the recent War Loan drive. Net purchases of Government securities by the commercial banks and Federal Reserve Banks during the two calendar months of the drive (May and June) are estimated to have amounted to about 8 billion dollars, or somewhat less than in the Sixth drive. Loans on Government securities by commercial banks to brokers and dealers and to others, however, expanded during the last drive by about 2.5 billion dollars, compared with 1.4 billion in the Sixth campaign. Altogether, it appears that the amount of bank credit expansion related to the Seventh War Loan—over 10.5 billion dollars—was somewhat greater than the expansion in connection with previous War Loans. On the other hand, it is estimated that net absorption of Government securities by nonbank investors, after allowance for subscriptions financed by bank loans, was greater than in the preceding drive, and probably exceeded that of any of the earlier drives. The final result, however, will depend upon the character of the redistribution of securities which takes place in the months following the close of the drive.

The unusually large expansion of bank loans on Government securities in connection with the Seventh War Loan is accounted for in part by a sizable amount of loans for bona fide investment purposes, particularly to institutional investors such as insurance companies which will pay off the loans out of future income in coming months. Borrowings by institutional investors seem to have been incurred as a precautionary measure against the possibility that the Treasury might modify the terms of its future offerings of long term bonds, either by eliminating bonds carrying 2½ per cent coupons, or by extending the maturity of bonds offered at that rate. In addition, there appears to have been an expansion of Government security loans to finance speculative purchases of new issues for resale after the close of the drive.

To the extent that institutional and other investors anticipated their future investment needs by borrowing to enlarge their subscriptions to Seventh War Loan issues, the ability of such investors to absorb future offerings of securities will tend to be reduced. The increase in deferred payment subscriptions during the Seventh War Loan also points in that direction.

Member Bank Reserve Position

In the opening days of July, member banks were still experiencing the easing effects on their reserve positions of the War Loan drive. Payments for subscriptions on the final days of the drive resulted in a considerable further shift of deposits from private accounts, subject to reserve requirements, to War Loan accounts which are reserve-exempt, and as a result of this shift the required reserves of all member banks declined by more than 400 million dollars in the week ended July 3. Gains and losses of reserve funds largely balanced, so that member bank excess reserves rose from about 1,300 million dollars to roughly 1,700 million during the week. Member bank borrowings from the Reserve Banks dropped substantially to 39 million dollars, compared with a peak of 912 million on June 6, while other Reserve Bank credit (including "float") increased.

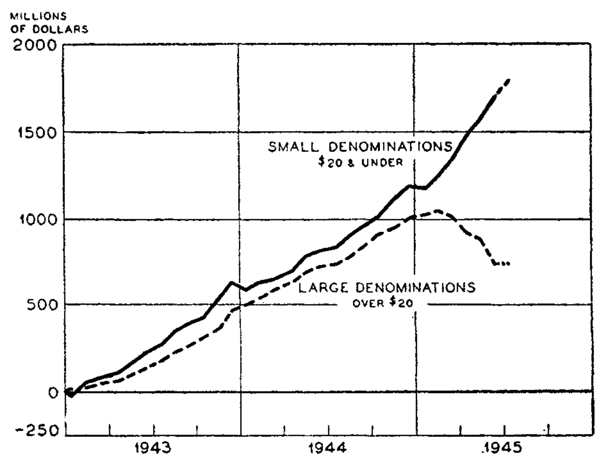
A fairly rapid absorption of member bank excess reserves occurred during the following three weeks, and by July 25 the figure was reduced to approximately 1,150 million dollars. In this period the Treasury resumed its withdrawals of funds from War Loan Deposit accounts to meet Government disbursements, which had the effect of increasing private deposits again, and thus increasing the reserve requirements of member banks. In the three-week period, required reserves of all member banks increased by more than 500 million dollars. Movements of funds between localities and between banks resulted in wide differences in the reserve positions of individual banks during this period, however. Some banks continued to have ample funds at their disposal and made substantial purchases of Government securities, including, in some cases, purchases of Treasury bills, either from Federal Reserve Banks to which they had sold bills previously, or directly from the Treasury through bids for the new bills offered each week. Other banks, including some of the large New York City banks, sustained substantial losses of funds in the clearings, however, and found it necessary either to resume their borrowings from the Reserve Banks or to sell securities in the market. Total member bank borrowings rose to 230 million dollars on July 25, a larger amount than on corresponding dates after previous War Loans.

Currency Circulation

A continuing factor affecting the reserve position of member banks is the public demand for currency. In the three weeks ended July 11, the amount of currency outstanding increased by nearly 400 million dollars, reflecting largely currency demands for the month end, the Fourth of July holiday, and vacations. This increase was somewhat greater than occurred in the corresponding period last year, but for the first seven months of the year the increase will probably be about 500 million dollars (or 22 per cent) less in 1945 than in 1944.

The most notable change in public demands for currency in recent months has been the substantial falling off in the demand for large denomination bills (denominations of $50 and up), whereas the demand for bills of smaller denomina-

Net Currency Payments by the Federal Reserve Bank of New York*



* Payments of paper currency to commercial banks and others in excess of receipts, cumulated from December 31, 1942; a downturn in the curves denotes an excess of receipts. July 1945 estimated.

tions has accelerated. As shown in the accompanying chart, receipts by this bank of paper money in such denominations have exceeded payments in each month since February 1945. Shipments of large denomination bills to banks in the District in response to public demands have been much smaller than in preceding months, and receipts from the banks of such bills returned by their depositors have been abnormally large. At the same time disbursements of small denomination notes ($20 and under) have tended to increase and receipts to diminish. The gain in net payments of small denomination currency has not been great enough, however, to maintain the former rate of increase in circulation of currency issued by this bank.

In its early stages, the reduced demand for large denomination notes apparently was an outgrowth of actions taken in England—first to eliminate further issues of large denomination currency, and then to retire such currency from circulation—which led to fears that similar action might be taken in this country. Although no such steps have been taken here, the unpopularity of large denomination notes has recently been increased still further by the announcement at the end of May that the Treasury had requested banks and other financial organizations to report unusual currency transactions of individual customers, in order to assist the Treasury in its efforts to track down and prosecute tax evaders. In July, receipts at this bank of large denomination currency have tended to fall off and the demand also has been small.

SEVENTH WAR LOAN

The Seventh War Loan drive exceeded its announced goal of 14 billion dollars by 88 per cent. Actual sales reached 26.3 billion dollars, a far larger total than was attained in any of the preceding War Loans, and this figure does not include subscriptions for Treasury investment accounts or the limited purchases of certain Seventh War Loan securities which the commercial banks were permitted to make for the investment of time deposits.

The Seventh War Loan was directed particularly toward sales to individuals. Total purchases by such subscribers amounted to 8,681 million, an increase of more than one third over the previous record which was attained in the Fifth War Loan. Especially noteworthy was the sale of 3,976 million dollars of Series E War Savings bonds. This figure, although slightly below the quota of 4 billion dollars, was nearly 800 million above the previous record established in the Fourth War Loan. Even though other quotas were oversubscribed by wide margins, the record sale of Series E bonds was the outstanding achievement of the drive. Such sales represent vastly greater numbers of individual sales and much greater effort on the part of the sales organization than do sales of other types of Government securities. While the goal of 3 billion for sales to individuals, other than sales of Series E bonds, was exceeded by 50 per cent, this result reflected in part subscriptions financed by bank credit, and hence is more difficult to appraise.

In an effort to direct the main attention in the Seventh War Loan to sales to individuals, the quota for corporations and other investors was reduced to 7 billion dollars (from 9 billion in the Sixth War Loan), and subscriptions from corporations were not accepted until the drive had been under way for more than a month. Nevertheless, the total volume of subscriptions of corporate and other investors (including insurance companies, savings banks, and other corporations, as well as security dealers and brokers, State and local governments, etc.) reached a greater volume than ever before, exceeding the quota by about 150 per cent. This result, however, has been viewed with less satisfaction than the sales to individuals. It is recognized that a substantial portion of the subscriptions were financed with funds borrowed from the banks or obtained through sales of securities previously held, which sales were in excess of normal portfolio adjustments. These securities, in large part, were purchased by commercial banks and represent indirect bank participation in the drive totals.

The extraordinary oversubscription of the Seventh War Loan reflects in substantial degree the effects of developments in the Government security market since the close of the Sixth War Loan, and fears that equally attractive securities might not be offered in succeeding drives. Spurred by reports that there would be no further offerings of fully marketable 2 per cent Treasury bonds in future War Loans, the commercial banks bought outstanding bonds of that type in considerable volume after the Sixth War Loan, and market prices of the latest issue of 2 per cent bonds of 1952-54 rose to a premium of well over 3 points; longer term bonds also made substantial gains. This development encouraged the belief that substantial profits, in addition to current interest, would be obtainable on securities purchased in the Seventh War Loan, and stimulated subscriptions of a speculative character. Furthermore, there were rumors that the long term 2½ per cent bonds of restricted marketability might either be discontinued or, if continued, their maturities might be considerably extended. The result was that the 2½ per cent bonds offered in the Seventh War Loan were purchased in record volume, partly with funds borrowed from banks; total purchases of this issue were in excess of 7 billion dollars, nearly double the greatest volume of sales of securities of that type in preceding War Loans.

Even when full allowance is made for speculative subscriptions and indirect bank buying, however, it seems fair to conclude that the Seventh War Loan was successful in accomplishing its primary purpose, namely, obtaining the investment in War Loan securities of a larger amount of the available funds in the hands of the public than ever before.

BRITISH FINANCIAL AGREEMENTS WITH WESTERN EUROPEAN COUNTRIES

Considerable interest has been evidenced in this country with regard to the series of important bilateral financial agreements which the British Government has concluded during the past nine months with various foreign countries, including, in chronological order, Belgium, Egypt, Sweden, France, Turkey, and Iraq. This article will examine the three agreements with the Western European countries, which exhibit a common pattern, while those with Egypt, Turkey, and Iraq, which are of a somewhat different character, will be treated in a later article.

The recent agreements with Belgium, Sweden, and France, which are essentially an extension of somewhat similar financial pacts which Britain concluded with these countries early in the war, are primarily designed to facilitate the resumption of orderly commercial and financial relationships, long interrupted by the German occupation of Europe, between Britain and each of the countries concerned. This objective is to be achieved in each case by: (1) the establishment of payments machinery adjusted to the regime of close exchange controls prevailing on each side; (2) commitments regarding exchange rates; (3) cooperation in common exchange control problems and in the control of undesirable capital movements; and, most important, (4) mutual provision of overdraft facilities or credits to insure that trade between the parties will not be impeded by shortages of each other's currency or of other acceptable means of payment, such as gold and dollars. The agreement between Britain and France also contains a special set of provisions, which will not be discussed here, designed to settle the complicated mass of financial claims between the two countries arising out of the prosecution of the war. Included in the three agreements, it might be noted, are not only the four principals, but also, in the case of Britain, Belgium, and France, their respective monetary areas, i.e., the countries of the sterling area, the Belgian monetary area, and the French franc area.

In each agreement machinery is set up, in keeping with the exchange control regulations on each side, to facilitate payments between the parties concerned, such payments to be ultimately channeled through special accounts maintained by each party on the books of the other party's central bank. The three agreements also reaffirm the existing official rates of exchange, namely £1 = 176.625 Belgian francs, £1 = 16.90 Swedish kronor, and £1 = 200 French francs. No changes in these rates are to take place except after mutual consultation (Belgium and France) or prior notice (Sweden), and all transactions between the parties, so far as they involve a relationship between sterling and each of the currencies concerned, are to be settled on the basis of the official rates of exchange. The participants also agree to cooperate closely on exchange control matters affecting their common interests and to assist each other in keeping capital movements "within the scope of their respective policies" and particularly in preventing transfers "which do not serve direct and useful economic or commercial purposes." The Anglo-French Agreement makes this cooperation more specific by providing that the British and French Governments shall make available to each other any information they may possess concerning assets in the sterling area belonging to French nationals resident in the franc area, and assets in the franc area belonging to British nationals resident in the sterling area, respectively.

The most important and distinguishing feature of the three agreements lies in their provisions for the extension of mutual financial aid. The Anglo-Belgian Agreement, for example, provides that the Bank of England and the National Bank of Belgium, each acting for its government, will sell the other party sterling and Belgian francs, respectively (or, if need be, the local currencies, other than sterling and Belgian francs, of members of each monetary area), against payment in Belgian francs and sterling, respectively, to meet payments which residents of the one area have to make to the other and which are sanctioned by the prevailing exchange control regulations. The amount of Belgian francs to be held by the Bank of England under this arrangement shall not exceed 883,125,000 Belgian francs, or the equivalent of £5 million, while the amount of sterling which the National Bank of Belgium agrees to hold similarly shall not exceed £5 million (except by the net amount of sterling already owned by residents of the Belgian monetary area on the date the agreement enters into force). These sums set the limits within which the balance of payments between the two areas may move, one way or another, without any "foreign exchange problem" arising. Over and above these limits, however, settlements must be made in gold. The agreement is to run for three years, but no provision is made for the ultimate settlement of any balances outstanding at the end of that time.

The Anglo-Swedish Agreement, which is to run for five years, is framed on very similar lines, with one conspicuous exception. No limits are formally placed upon the amount of the other party's currency that each party agrees to accumulate under the mutual overdraft facilities and, theoretically at least, the balance of payments between the sterling area and Sweden may run up to any size in either direction without the need for settlement arising. It is widely anticipated that for several years after the war Sweden's balance of payments with the sterling area will be in Sweden's favor and that the Sveriges Riksbank will consequently accumulate sterling on balance.

In the case of the Anglo-French Agreement, mutual financial aid is to take the form of the provision of outright credits rather than holding of currency. Thus, the British and French Governments agree to make available to each other, through their respective central banks, non-interest-bearing credits of £100 million, or 20 billion francs, as the case may be, to meet payments which the franc area has to make in the sterling area, and *vice versa,* in the year ending February 28, 1946. As these credits are drawn upon, the local currency involved will be paid into special accounts at the Bank of England and the Bank of France held on behalf of the other party. Provision is made for possible upward adjustments in the size of the credits, if need be, and also for partial or complete settlement, according to a complicated formula involving some payment in gold, of any net credits outstanding on

February 28, 1946. It is generally anticipated that the balance of payments within the one-year period of the agreement (which is subject to renewal) will be in favor of the sterling area.

All three agreements are drawn on rather narrow lines in that they specify that the currency of the one country held by residents of the other (including currency made available under the mutual financial aid provisions) can, in general, be used only for transfers or payments within the country concerned, although eventual multilateral convertibility of such balances is looked forward to in the provision that, as opportunity offers, each party shall seek to permit its currency held by the other party to be used for making payments in third countries. Despite the restrictions imposed upon free convertibility of balances and related provisions, however, these agreements are in no way inconsistent with the Bretton Woods Fund plan, at least so far as the "transitional period" is concerned, since that plan specified that during this period members may "maintain and adapt to changing circumstances . . . restrictions on payments and transfers for current international transactions." In this connection it is significant that each of the British financial agreements provides that if the participants adhere to a "general international monetary agreement," the terms shall be reviewed with a view to making any amendments that may be required.

Essentially, agreements of this character will have the beneficial effect of facilitating more normal commercial relationships between the participants and their respective monetary areas in the difficult transition period ahead, in the face of tight exchange controls and (in Great Britain) limited monetary reserves, and in this respect should be considered a useful step in the reconstruction of world trade in general. Such agreements can be of special benefit to Great Britain, whose external financial position has seriously deteriorated during the war, in that they offer the assurance that, within limits at least, any current deficits which that country may face in its trade with some of the other participants will be financed, in effect, by borrowing from those countries, rather than by paying them out of its limited gold and dollar reserves.

On the other hand, there is always the possibility that if Britain's balance of payments difficulties are not adequately resolved, these agreements may be extended beyond the transition period for which they were designed, and perhaps coupled with attempts to bilateralize trade between the participants so as to prevent excessive claims from piling up on one side or the other. Under unfavorable world economic conditions, moreover, these agreements might even lay the basis for an enlargement of the sterling area or for the eventual grouping of Western European countries and their overseas monetary areas in a closely integrated exchange and trading bloc which, while permitting relative freedom of transfers within the bloc, would maintain close controls and discriminations against transactions with the rest of the world. These possible long-run implications of the recent British financial agreements with Western European countries underline, therefore, the need for appropriate international, as well as American, action designed to create the conditions necessary for a gradual relaxation of the exchange controls and other restrictive trade practices abroad which will prevail in the early postwar years, and to minimize the possibility of their extension into more undesirable forms.

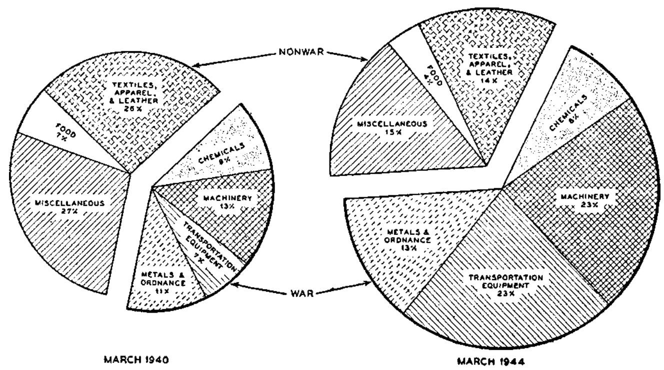
EMPLOYMENT IN NEW JERSEY DURING THE WAR

The 12 Northern New Jersey counties which are in the Second Federal Reserve District[1] provided in March 1940 over three fourths of total employment in the State. During the war the number of persons engaged in manufacturing in this area rose to a peak of about 800,000, an increase of more than 75 per cent over the level of March 1940. The accompanying chart indicates the percentage distribution of manufacturing employment in Northern New Jersey in 1940 and 1944. The transportation equipment group of industries, which includes shipbuilding and aircraft, accounted for more than two fifths of the total increase between the two dates, augmenting its working forces by almost 150,000 employees. The machinery group—one of the area's leading peacetime industries—required over 110,000 more workers in 1944 than in 1940. Its principal wartime products are various types of electrical equipment for military use. Metals and ordnance manufacturers added about 50,000 persons to their payrolls and producers of chemicals about 20,000. With the exception of the stone, clay, and glass and rubber industries, which are included in the miscellaneous group, the remaining three groups comprise largely consumers' goods industries. Material and labor shortages forced them to operate with somewhat fewer employees in March 1944 than they had four years earlier.

The more rapid growth of war industries in Northern New Jersey than in neighboring New York City is reflected in data

[1] Bergen, Essex, Hudson, Hunterdon, Middlesex, Monmouth, Morris, Passaic, Somerset, Sussex, Union, and Warren.

Distribution of Manufacturing Employment in Northern New Jersey by Industry Groups, March 1940 and 1944*



* Covers the 12 northern counties in the Second Federal Reserve District.

Source: Partly estimated by Federal Reserve Bank of New York—for 1940 from *Census of Population*, for 1944 from data of the New Jersey Unemployment Compensation Commission.

on commuter traffic, which show that the number of New York residents working in New Jersey has doubled during the war, while that of New Jersey residents commuting to jobs in New York City declined slightly. Other wartime additions to the New Jersey labor force have come from the ranks of in-migrants and those women, young people, and older workers normally not seeking employment.

Early in 1944 these sources of workers seem to have been exhausted, however, and continued military inductions caused serious labor stringencies in the District, despite some reduction in the total demand for factory workers. Since March 1944 the War Manpower Commission has classified several Northern New Jersey areas in Group I (areas of acute labor shortages). Since that time there has been some shrinkage in employment in war industries, but the labor force also has been reduced so that the labor supply situation has remained rather tight. At present Paterson, Perth Amboy, and Plainfield-Sommerville are the only Group I areas in the Second District. The remaining labor market areas in Northern New Jersey are currently designated as "areas of labor stringency." Newark, where a serious labor shortage existed earlier this year, was shifted to this second group only in June.

Employment in the State as a whole expanded during the war from 1,600,000 in the spring of 1940 to about 1,900,000 at the peak in the last half of 1943. In addition more than 300,000 men and women joined the Armed Forces. The wartime employment increase in New Jersey, which amounts to almost 20 per cent, is about as large, relatively, as that which occurred in New York State during the same period (see the June 1 issue of this *Review*), but munitions industries have absorbed a larger part of the labor force than in New York. In May 1944 New Jersey's munitions manufacturers employed 566,000 workers, more than a fourth of the State's working population.

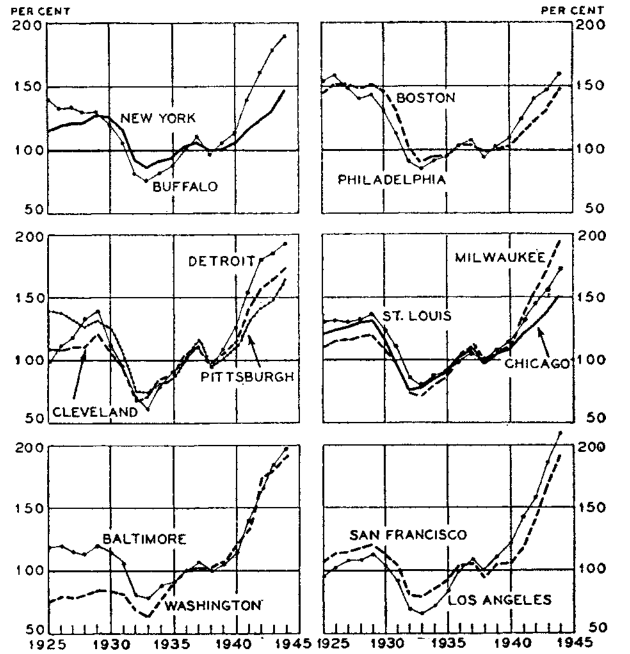
Consumers' goods industries, unlike those in New York, operated at lower levels in the spring of 1944 than in 1940. Among the nonmanufacturing industries Federal Government employment has shown the largest rise. The transportation, communication, and public utilities group also expanded. The other nonmanufacturing industries lost workers after their earlier gains in 1940, 1941, and early 1942.

Between January 1944 and April 1945 manufacturing employment in New Jersey contracted by about 10 per cent. No corresponding gain has occurred in nonmanufacturing industries, but employment in this group has been rather stable in recent months.

SALES OF DEPARTMENT STORE TYPE MERCHANDISE IN PRINCIPAL CITIES

Department store sales in New York City have increased less than 50 per cent over the war period; this is one of the smallest gains to be recorded for any large city in the United States, as the first chart indicates. The record appears more favorable, however, if total sales of department store type

Indexes of Department Store Sales in Selected Large Cities, 1925-44
(1935-39 average=100 per cent)



merchandise rather than department store sales alone are considered, and if the wartime decline in the civilian population of New York City is taken into account.

In New York City department store sales are not an adequate measure of the demand for department store type merchandise, as less than one quarter of consumer expenditures for that type of merchandise are made in such stores. As shown in the second chart, this is the smallest percentage for any city with a population of over 500,000. During 1944 apparel store sales in New York City exceeded the department store dollar volume, whereas in other large cities they usually reach less than half of the department store sales volume. Men's and women's wear "specialty" shops accounted for another fifth of all department store type merchandise purchased. During the war period sales of the apparel lines of merchandise have registered the sharpest increases.[1] Because in New York City a relatively small proportion of total apparel sales is made in department stores, a truer picture is obtained if comparison with other cities in the country is made on the basis of total department store type merchandise sold. Table I, which gives 1944 data by type of store, indicates that over the war period the estimated 65 per cent increase in total New York City sales of department store type merchandise has substantially exceeded that for Chicago, Boston, Pittsburgh, and St. Louis, and has almost equaled the Cleveland, Buffalo, Detroit, and Philadelphia increases. During the war period the civilian population of New York City has declined sharply, whereas it has increased in many other large cities. After allowance for population changes, the increase in per capita New York City sales of department store type merchandise approximately

[1] An analysis of departmental sales was presented in the May 1945 *Review*.

Table I

Estimated Sales of Department Store Type Merchandise and Population Changes, United States and Selected Large Cities

Locality	1944 sales in millions of dollars			Percentage change 1929–44			Percentage change 1939–44		
				Sales			Sales		
	All stores*	Department stores	Apparel stores	All stores*	Department stores	Population	All stores*	Department stores	Population
United States	20,904	6,215	3,979	+ 38	+ 59	+ 4	+71	+75	− 3
New York City	1,984	421	490	+ 10	+ 16	− 3	+65	+47	−10
Chicago	811	332	156	− 2	+ 15	− 2	+46	+45	− 2
Los Angeles	554	214	103	+ 53	+ 87	+37	+92	+90	+13
Philadelphia	522	201	88	+ 16	+ 11	0	+73	+57	+ 1
Detroit	448	184	77	+ 27	+ 40	+12	+73	+80	+ 8
Boston	320	131	57	+ 1	− 2	− 7	+54	+48	− 6
San Francisco	305	190	54	+ 54	+ 59	+ 9	+99	+84	+ 9
Washington	302	105	59	+131	+127	+69	+97	+79	+24
Cleveland	276	132	37	+ 23	+ 46	− 2	+69	+66	+ 1
Pittsburgh	244	134	27	+ 16	+ 25	− 6	+58	+59	− 6
Baltimore	237	99	46	+ 67	+ 66	+16	+87	+90	+ 8
St. Louis	232	99	37	+ 17	+ 28	− 1	+58	+62	0
Milwaukee	185	82	30	+ 30	+ 62	+ 1	+80	+87	− 1
Buffalo	160	67	30	+ 20	+ 47	0	+70	+80	0

* Includes all stores selling primarily department store type merchandise.
Source: Estimated by the Federal Reserve Bank of New York from 1939 Census of Business and percentage changes of sales by type of store from data collected by the Federal Reserve System currently and in the annual *Retail Credit Survey*. Population by cities in 1944 estimated from Census data on civilian population by counties for November 1943.

equals that for San Francisco and Milwaukee, and substantially exceeds the gains in Los Angeles, Washington, and Baltimore. The size of this increase may be due in part to the large number of transients in New York City who are not included in the population data.

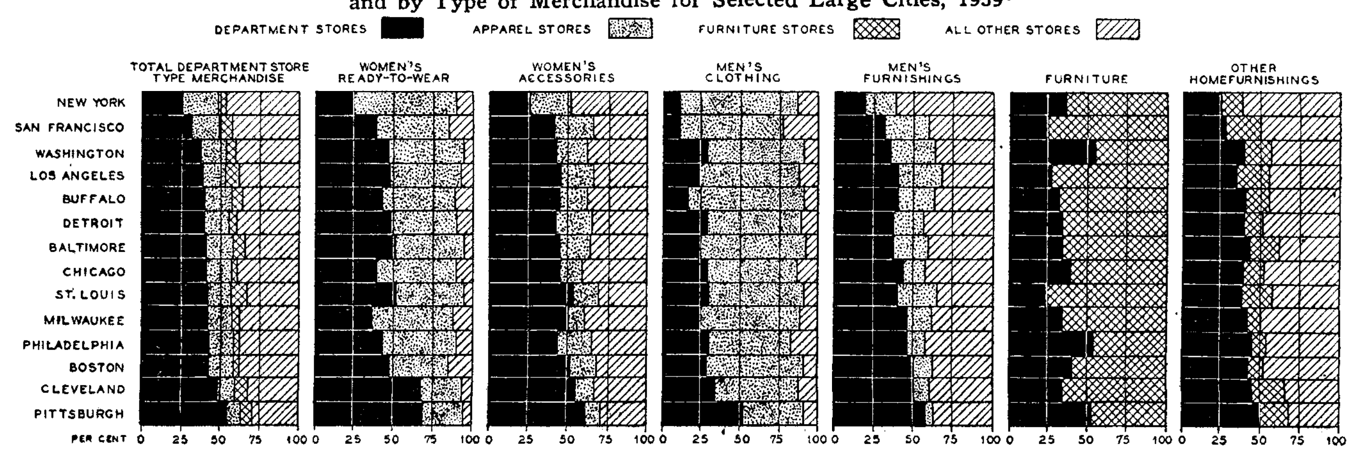
Although comparison over the war period shows that New York City's total dollar sales increase was close to the average, and that the per capita increase was one of the highest, the increase since the 1929 peak has been less than the average for the country as a whole. In 1929 New York City accounted for 12 per cent of all department store type merchandise sold in the United States; by 1944, although it still headed the list in dollar volume, its proportion had declined to 9½ per cent. This drop is probably attributable in part to the rapid growth in population of other cities, especially during the war, and may also be due partly to the growth of suburban shopping centers during this period. Chicago and Boston also appear to have been affected by much the same factors and department store type merchandise sold during 1944 approximately equaled the 1929 levels. In the accompanying table increases by cities during this period are compared with population changes. It will be noted that the exceptionally large gains for Los Angeles, Washington, and Baltimore were largely due to the population increases.

As shown in the second chart, department store sales in New York City account for the smallest proportion of total department store type merchandise sold in any of the large cities, while Pittsburgh stores account for the largest. These cities are at the two extremes for all types of merchandise except furniture. For the various merchandise groups the proportion of department store type merchandise sold in department stores shows considerable variations from city to city. Thus, in Chicago, Milwaukee, Philadelphia, and Boston the proportion of women's ready-to-wear clothing sold in department stores is relatively low. For women's accessories, St. Louis is far above average while Philadelphia is much below. The proportion of men's clothing sold in department stores is exceptionally high in Washington; in Buffalo and Milwaukee it is relatively low. Men's furnishings in all cities analyzed follow closely the pattern of total department store type merchandise; this is also true for homefurnishings other than furniture. New York, Washington, and Philadelphia department stores get an unusually large share of the furniture business, while St. Louis and Cleveland figures are low.

In all cities the "specialty" stores account for substantial proportions of women's accessories, men's furnishings, and homefurnishings, while the apparel stores specialize in ready-to-wear.[2] New York City apparel stores sell 65 per cent of all women's ready-to-wear merchandise, and 76 per cent of men's clothing, a larger proportion than in any other city included in this comparison. Specialty stores of this city also account for a larger share in sales of women's accessories and men's furnishings than in the other large cities.

[2] An analysis of department store type merchandise sold by individual departments was presented in the January 1945 *Review*.

Percentage Distribution of Sales of Department Store Type Merchandise by Type of Store and by Type of Merchandise for Selected Large Cities, 1939*



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

Table II
Estimated Sales of Department Store Type Merchandise by Departmental Groups and Per Capita, United States and Selected Large Cities, 1939

Locality	In millions of dollars							Per capita sales in dollars
	Total merchandise*	Women's ready-to-wear	Women's accessories	Men's clothing	Men's furnishings	Furniture	Other home-furnishings	
United States	12,221	1,515	2,263	824	1,006	739	2,355	93
New York	1,203	206	234	96	98	65	196	161
Chicago	555	81	102	46	46	27	96	163
Philadelphia	301	43	56	23	26	17	54	156
Los Angeles	288	36	51	19	22	17	62	192
Detroit	259	37	46	19	19	16	45	160
Boston	208	37	40	17	17	10	33	270
Cleveland	163	25	32	13	12	10	30	186
Pittsburgh	154	24	28	12	12	11	29	230
San Francisco	153	24	27	10	12	8	27	242
Washington	153	22	28	12	12	8	27	231
St. Louis	147	21	25	11	11	12	26	180
Baltimore	127	19	24	9	10	9	23	148
Milwaukee	103	16	18	7	8	6	20	176
Buffalo	94	14	18	8	8	5	17	164

* Includes all department store type merchandise sales.
Source: Estimated by Federal Reserve Bank of New York from 1939 Census of Business.

Table II gives dollar sales of department store type merchandise in 1939 (no similar data are available for more recent years), by principal groups for each large city. The percentage distribution of sales by type of merchandise does not vary greatly among the cities. In New York City women's ready-to-wear accounts for 17 per cent, women's accessories for 19 per cent, men's clothing and furnishings each for 8 per cent, furniture for 5 per cent, other homefurnishings for 16 per cent, and other lines of merchandise for 27 per cent.

Per capita sales of merchandise, also shown in Table II, reflect both differences in the size of per capita income and in the area served by the various cities. In such cities as San Francisco, Los Angeles, and Washington, larger per capita income payments, rather than the large number of out-of-town shoppers, probably explain the high per capita sales. Pittsburgh apparently ranks among the top four because it draws a large number of customers from suburban communities. Among the larger cities, New York reports one of the smallest per capita sales of department store type merchandise, although it is well above the national average. The varying number and importance of suburban shopping centers have considerable influence on the per capita sales figures for the different cities. For this and other reasons the significance of per capita figures is subject to serious limitations.[3]

[3] Estimates on which the charts are based and additional statistical data on sales by cities, may be obtained upon request.

DEPARTMENT STORE TRADE

Department store sales in this District during July were again at an unusually high level. The seasonally adjusted index increased slightly from June to July and was the second highest on record, about 10 per cent below the all-time peak of last March.

The seasonally adjusted index of department store stocks at the close of June had risen about 30 per cent since the beginning of the year. The stock index (based on retail values) is now the highest since the close of 1942 and 20 per cent below the all-time high reached in July of that year.

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

Locality	Net sales		Stocks on hand June 30, 1945
	June 1945	Jan. through June 1945	
Department stores, Second District	+17	+14	+17
New York City	+16	+14	+16
Northern New Jersey	+19	+14	+26
Newark	+21	+15	+28
Westchester and Fairfield Counties	+16	+10	+13
Bridgeport	+12	+ 8	+ 6
Lower Hudson River Valley	+18	+16	+ 2
Poughkeepsie	+20	+15	—
Upper Hudson River Valley	+22	+14	+10
Albany	+31	+17	—
Schenectady	+11	+12	+ 4
Central New York State	+20	+12	+12
Mohawk River Valley	+13	+ 6	− 5
Utica	+15	+ 5	− 4
Syracuse	+24	+15	+20
Northern New York State	+17	+20	—
Southern New York State	+20	+14	+ 7
Binghamton	+24	+18	+ 8
Elmira	+12	+ 8	+ 5
Western New York State	+17	+10	+15
Buffalo	+13	+ 8	+12
Niagara Falls	+17	+11	−11
Rochester	+23	+13	+27
Apparel stores (chiefly New York City)	+26	+21	+14

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

Item	1944	1945		
	June	Apr.	May	June
Sales (average daily), unadjusted	133r	143	148	156
Sales (average daily), seasonally adjusted	144	150	156	169
Stocks, unadjusted	143	166r	167	165
Stocks, seasonally adjusted	149	164r	165	172

r Revised.

Indexes of Business

Index	1944	1945		
	June	April	May	June
Industrial production*, 1935-39 = 100 (*Board of Governors, Federal Reserve System*)	235	231	226	222p
Electric power output*, 1935-39 = 100 (*Federal Reserve Bank of New York*)	201	207	207	204p
Ton-miles of railway freight*, 1935-39 = 100 (*Federal Reserve Bank of New York*)	232	248	236p	
Sales of all retail stores*, 1935-39 = 100 (*Department of Commerce*)	175	176	177p	
Factory Employment				
United States, 1939 = 100 (*Bureau of Labor Statistics*)	166	155	151	149p
New York State, 1935-39 = 100 (*New York State Dept. of Labor*)	148	141	138	134p
Factory Payrolls				
United States, 1939 = 100 (*Bureau of Labor Statistics*)	335	317	303p	
New York State, 1935-39 = 100 (*New York State Dept. of Labor*)	283	284	268	263p
Income payments*, 1935-39 = 100 (*Department of Commerce*)	234	242	243p	
Wage rates, 1926 = 100 (*Federal Reserve Bank of New York*)	165	170	170p	
Cost of living, 1935-39 = 100 (*Bureau of Labor Statistics*)	125	127	128	129p
Velocity of demand deposits*, 1935-39=100 (*Federal Reserve Bank of New York*)				
New York City	88	76	81	106
Outside New York City	87	73	73	92

* Adjusted for seasonal variation. p Preliminary.

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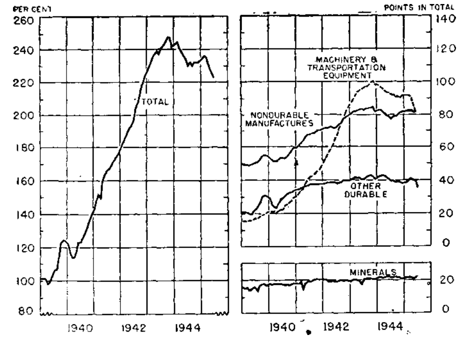
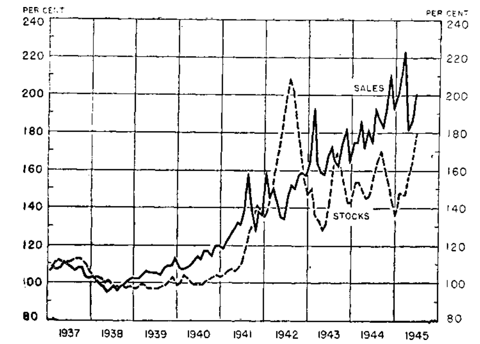
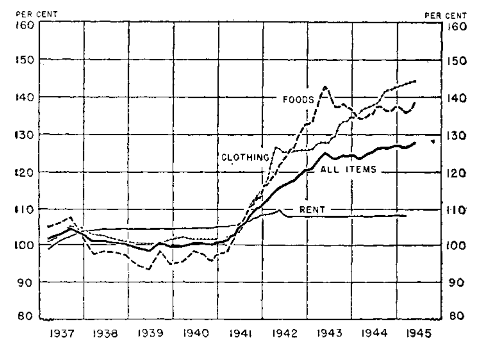


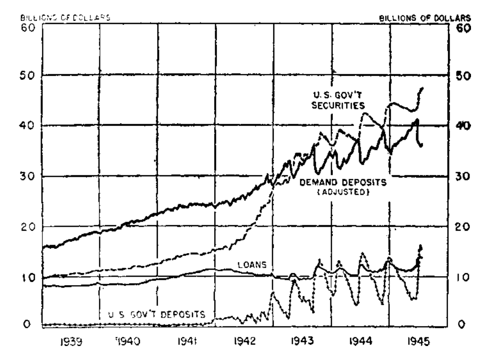
Index of Physical Volume of Industrial Production, Adjusted for Seasonal Variation, 1935-39 Average =100 Per Cent (Groups shown are expressed in terms of points in the total index)



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



Indexes of 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 Banks in Leading Cities. Demand Deposits (Adjusted) Exclude U. S. Government and Interbank Deposits and Collection Items. Government Securities Include Direct and Guaranteed Issues (Latest figures are for July 11)

General Business and Financial Conditions

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

PRODUCTION and employment at factories declined somewhat further in June reflecting mainly reduced output of munitions. Value of department store sales in June and the early part of July were considerably above year ago levels.

Industrial Production

Industrial production declined about 2 per cent in June and the Board's seasonally adjusted index was 222 per cent of the 1935-39 average as compared with 226 in May and 235 in March of this year.

Reduced activity in munitions industries accounted for most of the decrease. Aircraft production in June was at a daily average rate 5 per cent below May. The volume of work done on new ship construction continued to decline, while ship repair activity was maintained at a high level. Total munitions production was about 10 per cent below the March level, which was the last month under the full two-front war program. The decline is scheduled to accelerate in July, with over-all munitions output planned at a rate about 15 per cent below March.

Steel production in June and the first three weeks of July was down 7 per cent from the May level, and was 5 per cent below the corresponding period a year ago. Output in the nonferrous metal industries also declined, particularly at fabricating plants, owing primarily to the large drop in military demand for most aluminum and copper products.

Production of most nondurable goods showed little change in June. Civilian supplies of some of these goods such as butter and tobacco products have increased in July as a result of reduced military purchases. Distilleries have been permitted to produce beverage alcohol in July. Production of shoes and textile products for civilians is expected to increase by autumn.

Output of minerals rose 5 per cent in June, reflecting mainly a large rise in coal production to the highest rate since last November. Crude petroleum production continued to increase, reflecting even greater military demand for some petroleum products for the Pacific War than for the two-front war prior to VE day.

Contracts awarded for most types of privately-owned construction increased considerably in June. The total value of private awards was three times as large as the very low level prevailing in 1944, while awards for Federal construction were generally smaller than last year.

Distribution

Department store sales, which usually decline from May to June, increased this year and the Board's seasonally adjusted index rose from 187 to 201 per cent of the 1935-39 average. Sales in June were 15 per cent larger than a year ago and in the first half of July were 23 per cent larger than in the corresponding period last year.

Freight carloadings were generally maintained in June and the early part of July. Shipments of manufactured products, however, declined somewhat and, allowing for seasonal changes, were about 5 per cent below the first quarter average. Loadings of coal in June and the first two weeks of July were above the reduced level prevailing in April and May.

Commodity Prices

Prices of wheat and of fruits and vegetables declined somewhat from the middle of June to the third week of July reflecting chiefly seasonal increases in supplies. Prices of most other farm products showed little change after reaching a new peak for the wartime period on June 15.

Steel scrap prices, which had declined somewhat in May, increased to ceiling levels in the latter part of June and prices of most other industrial materials were maintained at ceiling levels.

Agriculture

Production prospects for most major crops were generally favorable on July 1. Cotton acreage reported in cultivation, however, was 10 per cent smaller than last year, and prospective corn production this year was indicated on July 1 to be 17 per cent smaller than last season's large harvest.

Milk production continued at a record level in June. The number of young chickens on farms has increased rapidly this spring and on July 1 was 11 per cent greater than on the same date in 1944. Marketings of cattle and sheep were larger in June than in the same period last year, while the number of hogs marketed continued to be much less than in 1944.

Bank Credit

Reporting member banks in 101 leading cities increased their holdings of U. S. Government securities by 4.5 billions of dollars in the eight weeks ended July 11, which period included the major portion of the Seventh War Loan drive. This amount corresponds closely to increases for comparable periods of the two previous drives. During the Seventh Loan banks added substantially to their holdings of bills, certificates, and notes, and they have also continued to increase their holdings of bonds.

Loans for purchasing and carrying Government securities extended to customers other than brokers and dealers by weekly reporting banks increased 1.6 billions during the four weeks ended June 27, in contrast to 1.1 billions during the comparable period of the Sixth drive, and 1.3 billions in the Fifth. Loans to brokers and dealers for purchasing or carrying Government securities started increasing somewhat earlier and expanded more than in preceding drives. Both categories of these loans at their peaks were above high points reached in previous drives. Declines in these loans began in July.

Excess reserves expanded more and reached a higher level than in any drive since the Third War Loan drive in September 1943. Owing to the great success of the Seventh Loan in obtaining subscriptions from nonbank investors, the shift of funds from deposits subject to reserve requirements to reserve-exempt United States Government deposits and the consequent decline in required reserves were larger than usual. Member banks used a part of the funds thus made available to pay off borrowings at Reserve Banks, which had risen to a high level of over 900 million dollars in June. Reserve Bank holdings of Treasury bills showed less decline during and following the Seventh Loan than at the time of the previous drive. Holdings of certificates and notes continued to increase.