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MONEY MARKET IN OCTOBER

October saw the start of the Victory Loan, the subscription books for marketable and nonmarketable securities being opened to individuals on October 29. The Victory Loan comes at a strategic time when consumers' durable goods are only starting to roll off production lines and the substantial savings and current earnings of the public are more than ample to absorb the new supplies. Heavy public support of the Victory Loan will help to achieve a better balance between available purchasing power and supplies of goods and contribute in an important way toward restraining inflationary pressure in the early phase of the transition period, and will help to provide the funds still needed by the Treasury to meet the remaining costs of the war.

Coming toward the end of the month, the Victory Loan had of course no appreciable effects on the money market during October. Principal developments in the money market were related largely to substantial shifts of funds between New York and other parts of the country, which resulted in large part from Treasury operations and from transactions in Government securities. Treasury war disbursements continued to decline, and these and other expenditures by the Treasury brought a further rise in demand deposits of individuals and business enterprises and with it an increase in reserve requirements of the banks. The rise in currency circulation slowed up noticeably.

War expenditures continued their descent at a rapid though reduced rate. In the first 21 working days of the month, Treasury war spending was approximately 500 million dollars below the level of the comparable period in September which in turn was about a billion dollars below the comparable August figure. The decline in war disbursements was offset somewhat by redemptions of 50 million dollars of Treasury certificates which matured on October 1 (and were not exchanged for new certificates), and of 175 million dollars of Series C Savings (tax) notes. As checks issued by the Government against funds withdrawn from War Loan deposits were deposited in private accounts, required reserves of member banks rose and in the four weeks ended October 24 increased 320 million dollars.

The Treasury entered October with an unusually large balance in the Reserve Banks, accumulated over the period of heavy tax receipts in September, and had suspended withdrawals from War Loan deposit accounts for the last several days of that month. Because of this large balance, together with comparatively heavy tax receipts in early October (resulting from a lag in processing the September quarterly tax collections), and the reduced rate of war expenditures, the Treasury was able to limit War Loan withdrawals to smaller amounts than in many previous months, and actually to suspend them again for a few days toward the middle of October. Cash disbursements exceeded receipts by a wide margin, and the Treasury's balance in the Reserve Banks declined 668 million dollars, from 961 million dollars on September 26 to 293 million on October 17, and member bank reserve balances increased accordingly. In the week ended October 24, Treasury receipts and expenditures were approximately in balance.

Currency payments continued to draw funds from member bank reserves, but this drain on reserves has shown definite signs of slackening during the past two months. The increase in outstanding currency in the four weeks ended October 24 was only 245 million dollars, compared with 558 million in the corresponding four weeks in 1944. Although the slackening in the rate of increase has been noticeable since soon after the end of the Pacific war, it is too early as yet to conclude that the wartime growth of currency circulation has come to an end, except for seasonal increases. However, another element in the lower rate of increase in currency outstanding—the return from circulation of large bills which are only partly exchanged for the lower denominations—is still operative.

The net effect of the Treasury's operations in the three weeks ended October 17 was to ease member bank reserve positions, enabling the banks to retire Reserve Bank credit and expand excess reserves. Because of substantial shifts of funds between New York and other parts of the country, however, this retirement of Federal Reserve credit was uneven and often the contraction of one type of Reserve credit was accompanied by an expansion of another type. In the week ended October 24,



the reduction in Reserve Bank credit was superseded by a net increase largely in response to a further increase in member bank reserve requirements.

Treasury transactions were one factor in the substantial shifts of funds between New York and other sections of the country during October. While Treasury disbursements exceeded receipts in the country as a whole, the reverse situation occurred in New York, reflecting the expenditure in other parts of the country of Treasury funds raised in the New York market.

There were also wide movements of funds between New York and other areas associated with fluctuations in correspondent bank balances held in City institutions and with transactions in the Government security market. In the week ended October 3, the transfer of commercial and financial funds out of New York amounted to more than 300 million dollars and represented chiefly the proceeds of the sale of Treasury certificates and other short term Government securities by out-of-town banks in need of reserves. The effect of this outflow on New York City bank reserves was mitigated by a 125 million dollar increase in correspondent bank balances held with City banks, and Federal Reserve System purchases of substantial amounts of the Treasury certificates and notes offered in the New York market.

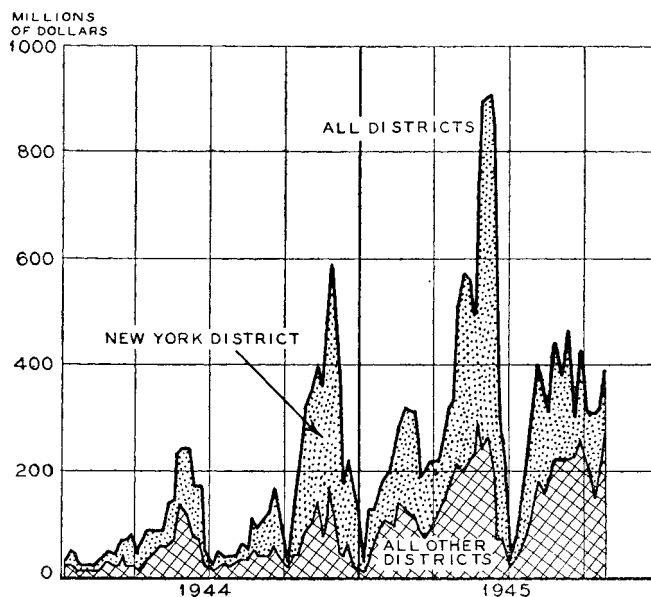
The subsequent easing of banking positions, brought about by substantial net Treasury disbursements, led to the development of an improved demand for certificates and other Government securities, and the outflow of commercial and financial funds was reversed, funds being transferred to New York partly in payment for Government securities purchased in the open market and partly in response to seasonal influences. In the three weeks ended October 24, the net inflow amounted to 450 million dollars; banking funds on deposit in New York declined slightly, although fluctuating widely from week to week. In the two weeks ended October 24, the Federal Reserve System made net sales of 101 million dollars of certificates and 0.90 per cent notes.

MEMBER BANK BORROWING

On October 24, six weeks before the payment date for corporate and institutional investor subscriptions to Victory Loan securities, member bank borrowings from the Reserve Banks amounted to only 390 million dollars, in contrast to 551 million on May 9 of this year, six weeks prior to the payment date for Seventh War Loan issues.

While member bank borrowings from the Federal Reserve Banks have run appreciably higher for most of the weeks following the Seventh drive than for the comparable period after the Sixth, in October they fell behind, reflecting a substantial (and perhaps temporary) decline in the borrowings of member banks in the New York Federal Reserve District, as illustrated in the accompanying chart. Throughout the period, however, and particularly in recent weeks, member banks have shown a tendency to sell certificates and short term

Member Bank Borrowings from the Reserve Banks



Treasury notes instead of expanding their borrowings further. In part, however, sales of such securities have been an alternative to, or substitute for the sale of Treasury bills to Federal Reserve Banks under repurchase options as a means of obtaining needed reserve funds, owing to the relative depletion of member bank bill holdings. The situation is strikingly indicated by the changes in the composition of Federal Reserve Government security acquisitions. Federal Reserve System market purchases of certificates have exceeded a billion dollars since the Seventh War Loan, as compared with small net sales after the Sixth. In contrast, after allowance for changes in the volume of Treasury bills outstanding, Federal Reserve holdings of bills increased only 125 million dollars in the more recent period, in contrast to 1,400 million in the earlier one.

MEMBER BANK CREDIT

Commercial, industrial, and agricultural loans of the weekly reporting member banks have been increasing steadily, with only minor interruptions, since July 25. Of the total increase of 348 million dollars between that date and October 17, 215 million occurred among New York City weekly reporting banks and 133 million among those in 100 other cities. The steady gain has brought the total for all reporting banks back to the level of last February. Although the expansion has taken place largely since V-J Day, available data do not indicate that the increase has represented loans to war contractors pending settlement of claims for terminated war contracts.

Loans to brokers and dealers and others on Government securities continued to be liquidated at an accelerated pace, particularly at New York banks. Taking advantage of the strength in the Government security market, brokers and dealers reduced their borrowings from New York institutions by 237 million dollars in the three weeks ended October 17,

and other borrowers on Government obligations liquidated 183 million dollars of such loans. The following week saw smaller declines. Liquidation of security loans of weekly reporting banks in 100 cities outside New York proceeded at a much slower pace, particularly loans to security brokers and dealers. Contraction of loans since the peak of the borrowings during the Seventh War Loan has been much greater than that for a comparable period from the peak of the Sixth drive. Nonbank investors have reduced their borrowings from New York banks by approximately 900 million dollars since the July peak, in contrast to a decline of about 570 million dollars in the corresponding number of weeks following the peak borrowings of the Sixth drive. The expansion of Government security loans during the Seventh drive was so large, however, that the outstanding volume on October 17 was still well above the levels of the comparable date between the Sixth and Seventh drives, especially in the case of loans to borrowers other than brokers and dealers.

NEW CORPORATE FINANCING

Reflecting efforts to clear the calendar of new corporate issues before the start of the Victory Loan, the volume of new corporate financing rose sharply in October, and offerings established new high records for many years with respect both to the over-all total and to various categories of new issues. The aggregate volume in October of 1.1 billion dollars (preliminary) was the third highest monthly total since the new issues series was first compiled by the *Commercial and Financial Chronicle* in 1919, exceeded only by the September and May 1929 totals of approximately 1.5 and 1.3 billion dollars, respectively. In July 1945, the most recent peak, new corporate security flotations amounted to about one billion dollars. As to the new high records in the various categories of new securities, refunding issues and bond offerings were each greater in October than in any other month for which records have been kept, and equity financing was the highest since May 1930 with the exception of the July 1945 total.

Refunding issues continued to dominate the market, amounting to 910 million dollars and accounting for 80 per cent of the total volume of new issues sold in October. This was a gain of about 20 per cent over the previous peak of approximately 750 million dollars in July 1945. Securities issued to obtain new money for the purpose of expanding plant, equipment, and working capital came to about 150 million dollars, or about twice the September volume, but were below the totals for May and July of this year.

Bonds were the major type of issue floated, amounting to about 860 million dollars, an increase of 200 million dollars over the July 1945 peak of about 660 million. Equity financing, which has been growing steadily since 1942, came to approximately 190 million dollars for the month, but was about a third lower than the July level. Included in the month's offerings was a 5 million dollar stock issue of a Mexican

manufacturing corporation, the first foreign company stock flotation in the New York market for some time. Public utility issues represented close to 60 per cent of the value of all new security offerings during the month.

For the first ten months of 1945, corporate financing totaled 5.3 billion dollars, of which approximately 900 million dollars represented new money issues and 4.4 billion refunding securities. The aggregate for 1945 to date exceeded that for any single year since 1929. The volume of refunding issues was higher than that for any previous whole year for which data are available. New money offerings, however, were somewhat more than 15 per cent below the volume for the corresponding months of 1937.

In addition to the influence of the approaching Victory Loan, the heavy concentration of new offerings in October may be attributed to the probable repeal of the excess profits tax on 1946 income now under consideration in Congress which would eliminate the tax saving that corporations in the excess profits tax brackets are able to secure by refunding outstanding bond issues. Since most callable issues may be redeemed prior to maturity only at a premium above par and since the premium is deemed an expense item, the largest proportion of that premium expense (as well as the expense of floating a new issue) represents, for corporations paying excess profits taxes, a deduction from taxes that would otherwise have to be paid. Thus, apart from the interest savings involved in refunding issues, there is frequently a substantial tax saving.

For the most part, the reception of new issues by investors was favorable. The slowness with which some offerings had been distributed during July and August owing to the tendency toward lower prices in the market for outstanding issues had largely disappeared by October with the development of a firmer tone in the security markets. The buoyancy on the stock exchanges during most of the last two months was accompanied by especially favorable reception of new common stock issues, some of which were greatly oversubscribed and quickly sold at relatively substantial premiums in the open market on the date of public offering. Reflecting in part the keen rivalry for new public utility and railroad securities under competitive bidding, there have been some instances in recent months in which new offerings appear to have been priced too close to the market for outstanding issues of like quality and maturity to permit their rapid absorption, but few such cases developed during October.

NATIONALIZATION OF THE BANK OF ENGLAND

Legislation for the nationalization of the Bank of England was introduced in the House of Commons by the Chancellor of the Exchequer, Hugh Dalton, on October 10. The new measure, entitled "Bank of England Act, 1945," requires the approximately 17,000 bank stockholders to turn in their stock to nominees of the Treasury in exchange for new 3 per cent government bonds, at the rate of 400 pounds for each 100 pound

nominal share value. Thus the new 3 per cent bonds, which will be redeemable at par on or after April 5, 1966, will be issued in the amount of 58,212,000 pounds, or four times the nominal value of the bank's outstanding shares (14,553,000 pounds), and the individual stockholder, who has averaged a gross return of 12 per cent over the past twenty years, is assured of equal income from his investment under the new arrangement. Interest on the government stock will be payable each year on April 5 and October 5, and a full half-year's payment will be made on whichever of these two dates occurs first after the Act goes into effect. The bank will pay to the Treasury semiannually, in lieu of dividends on bank stock, the sum of 873,180 pounds, representing a half-year's interest at the rate of 3 per cent on the amount of government stock to be issued.

One of the clauses in the Act provides that the bank is not to become a government department but is to remain a chartered corporation, whose present membership of some 17,000 will be reduced to one stockholder and the members of the Court of Directors; the latter will remain members of the corporation although no longer stockholders.

The bill further provides that the Governor, the Deputy Governor, and 16 directors of the bank shall be appointed by the Crown. This constitutes a change in the size of the bank's Court of Directors, which has heretofore had a membership of 24. The practice up to now has been that the 24 members of the Court were elected annually by the General Court of Proprietors, while the Governor, as well as the Deputy Governor, was elected annually by the General Court on recommendation of the Court of Directors. Under the new bill the term of office is five years in the case of the Governor and Deputy Governor, and four years in the case of the directors, with one quarter of the latter retiring annually, and the Governor, Deputy Governor, and directors are all eligible for reappointment. Persons holding membership in Parliament or a paid office under the Crown are disqualified from holding office. The bill does not lay down any requirements as to the technical competence of appointees to the offices of Governor, Deputy Governor, and director, or as to the occupational fields or geographical areas from which such appointees are to be chosen. The present Governor, Lord Catto, has consented to continue in office for the present and he will be the first Governor to be appointed by the Crown.

Under nationalization, complete responsibility for financial policy will be vested legally in the government and will be effected through the Crown's appointments to the Court of Directors, as well as through Clause 4 of the new legislation, which authorizes the Treasury to "give such directions to the Bank as, after consultation with the Governor of the Bank, they think necessary in the public interest." The same clause provides that "the Bank may if they think it necessary in the public interest, request information from and make recommendations to bankers, and may, if so authorized by the Treas-

ury, issue directions to any banker for the purpose of securing that effect is given to any such request or recommendation."

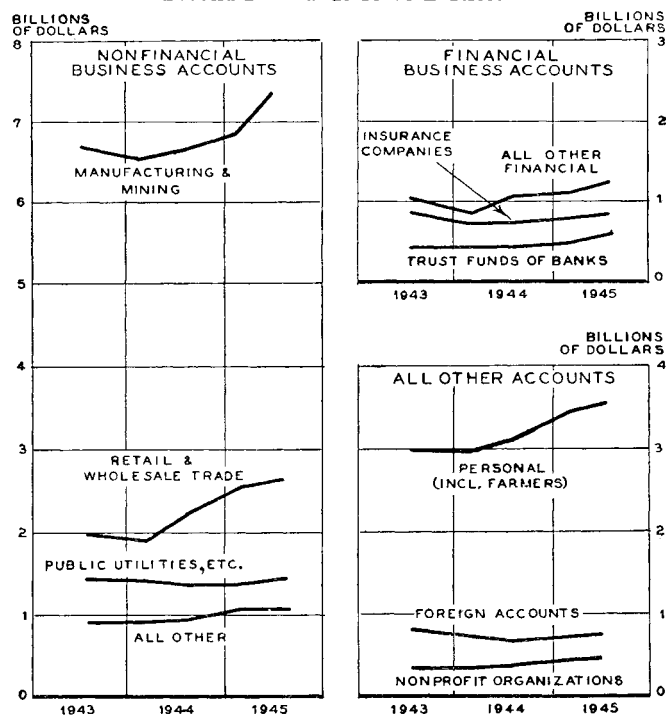
The "Bank of England Act, 1945," after its approval by Parliament, will become effective on a day to be appointed by the Treasury; such day must be no later than three months after the passing of the Act.

SURVEY OF OWNERSHIP OF BUSINESS AND PERSONAL DEMAND DEPOSITS JULY 1945

The latest survey of ownership of demand deposits of individuals, partnerships, and corporations in commercial banks in the Second Federal Reserve District—made just prior to the end of the war—reveals a slowing down during the six months ended July 1945 in the growth in deposits of retail and wholesale trade concerns and in personal accounts, which had formerly shown the most rapid gains of any groups of depositors. Perhaps in anticipation of reconversion expenses, manufacturing and mining and public utilities, transportation, and communications concerns increased their demand deposits much more than in the previous six-month period. Considerably larger increases than in most previous periods were also registered in the deposits of financial concerns other than insurance companies.

The changes since July 1943 in demand deposits by types of business and other accounts in all commercial banks in the Second Federal Reserve District are shown in the accompanying chart. The most significant increases in deposits over the

Ownership of Business and Other Demand Deposits
Estimated for All Commercial Banks in the
Second Federal Reserve District*



* On semiannual survey dates since July 1943.

period were those of trade concerns and personal accounts, and of the manufacturing and mining group in the last six months particularly.

The recent survey includes reports from 130 member banks which have approximately three fourths of the total deposits in all commercial banks in the District, and classifies into several ownership groups about 70 per cent of the dollar amount of business and personal demand deposits in the reporting banks. As in the five previous surveys, the accounts classified were the larger ones, the minimum size of account classified varying according to the size of the bank.

On the basis of the reports received and other available data, it is estimated that total demand deposits of individuals, partnerships, and corporations in all commercial banks in the District amounted to about 19.7 billion dollars as of July 1945. The gain since last January, the date of the preceding survey, is estimated at more than 1,100 million dollars, or 6.0 per cent, compared with an increase of 7.3 per cent between July 1944 and January 1945.

Business and personal demand deposits in all commercial banks in the United States are estimated at 69.6 billion dollars at the end of July 1945. The expansion from last January amounted to 3.7 billion dollars, or 5.6 per cent, compared with 6.3 billion dollars, or 10.6 per cent in the July 1944-January 1945 period. In the United States the rate of expansion in the latest period declined nearly 50 per cent, compared with the preceding six months, whereas in the Second District the decline was less than 20 per cent. This difference largely reflects the fact that personal and trade accounts which recorded substantial reductions in the rate of increase in the six months ended July 1945 comprise about half of the business and personal deposits in the United States but less than one third of the total of such deposits in the Second District. Furthermore, deposits of manufacturing and mining concerns, which rose sharply in the last six months, comprise 37 per cent of total deposits in the Second District as against only 26 per cent in the country as a whole. Generally speaking, the trends which prevailed in the Second Federal Reserve District during the last year in the different types of deposit ownership were also apparent in the figures for the entire country.

For the entire year ended July 1945, deposits in this District of the nonfinancial business group rose considerably less than the average for all groups (13.8 per cent), although the retail and wholesale trade concerns increased their deposits over 19 per cent. Manufacturing and mining accounts rose 9.8 per cent, public utilities, transportation, and communications, 8.3 per cent, and all other nonfinancial businesses including construction and services, 9.7 per cent. Groups of depositors which showed better than average gains were: trust funds of banks with an increase of 49.6 per cent; all other financial businesses including investment, loan, insurance agency, and real estate businesses, 16.9 per cent; nonprofit organizations, 24.9 per cent; and personal accounts, 16.5 per cent. Foreign

Estimated Ownership of Demand Deposits of Individuals, Partnerships, and Corporations in All Commercial Banks in the Second Federal Reserve District

Type of owner	July 1945		Percentage change	
	Dollar amount in millions	Percentage distribution	Jan. 1945 to July 1945	July 1944 to July 1945
Manufacturing and mining	7,312	37.0	+ 6.9	+ 9.8
Public utilities, transportation, and communications	1,470	7.4	+ 7.7	+ 8.3
Retail and wholesale trade and dealers in commodities	2,620	13.3	+ 3.9	+19.3
All other nonfinancial business, including construction and services	1,036	5.3	+ 1.1	+ 9.7
Total nonfinancial	12,438	63.0	+ 5.8	+11.5
Insurance companies	813	4.1	+ 2.9	+12.5
Trust funds of banks	608	3.1	+24.4	+49.6
All other financial business*	1,204	6.1	+11.0	+16.9
Total financial	2,625	13.3	+11.1	+21.6
Nonprofit organizations	436	2.2	+ 5.3	+24.9
Personal (including farmers)	3,524	17.8	+ 3.9	+16.5
Foreign accounts	721	3.7	+ 2.4	+ 8.2
Total demand deposits of individuals, partnerships, and corporations	19,744	100.0	+ 6.0	+13.8

* Including investment, loan, insurance agency, and real estate businesses, etc.

accounts showed a relatively small increase, 8.2 per cent, and accounts of insurance companies were up 12.5 per cent.

The total dollar increase in all business and personal deposits during the year is estimated at 2,389 million dollars. Of this amount the growth in total nonfinancial business deposits accounted for 1,284 million dollars, or 54 per cent of the rise in all accounts, and was concentrated to a large degree in manufacturing and mining which increased 655 million dollars, or 27.4 per cent, and in retail and wholesale trade balances which increased 424 million dollars, or 17.7 per cent of the total. The year's gain in financial accounts was 466 million dollars, or 20 per cent of the total, and reflected to a large extent increases in trust funds of banks and in accounts of financial businesses other than insurance companies. Accumulations in personal accounts also were substantial, amounting to 498 million dollars or 21 per cent of the increase in total demand deposits of individuals, partnerships, and corporations.

WARTIME MANUFACTURING FACILITIES EXPANSION IN THE SECOND DISTRICT

The value of manufacturing facilities authorized for construction in the Second Federal Reserve District between July 1940 and May 1944 amounted to almost 2.1 billion dollars, according to War Production Board data. This is a little more than one tenth of the 20.3 billion dollars spent throughout the country. Not included in the data are expenditures on privately financed expansions for civilian production, which accounted for an additional 3.5 billion in the country as a whole, and facilities in fields other than manufacturing, such as transportation, communications, public utilities, and housing. The tremendous volume of plant and equipment added in the 1940-44 period is in itself a great achievement. With the end of the war, however, interest arises as to the value of these facilities in the postwar years.

Of the 2.1 billion dollars authorized for plant and equipment in the District over the four-year period, 1.1 billion represented new plant and equipment and 716 million expansion of existing facilities. The remaining 222 million went into conversion of existing manufacturing facilities. Most of the converted facilities will revert to their normal use after Government equipment has been removed.

Equipment represented 60 per cent of expenditures in the District in the 1940-44 period; its importance relative to the cost of construction and land depends largely on the nature of the industry. Structure is relatively more important in industries where much of the work is assembling—shipbuilding, airplanes, explosives, and ammunition loading (hence the huge expenditures for construction at the Brooklyn Navy Yard and at airplane assembly plants in the Buffalo area). The manufacture of airplane engines, machinery, and ordnance required proportionately greater investment in factory equipment.

Less than one third of the total expenditures for plant and equipment was financed by private sources. Most of the 609 million dollars from private funds went into conversion and expansion of the owners' prewar plants; less than 200 million was for new plants. Federal participation accounts for a major portion of expansions in the various munitions industries, but only a small proportion of funds invested in the machinery, chemicals, food, and other miscellaneous industries (Table I). The share of public funds was very large in a few areas where new aircraft or aluminum plants were built, or where Government yards, arsenals, or ordnance works were established or enlarged.

FACILITIES EXPANSION BY INDUSTRY AND LOCATION

Approximately two thirds of all expansion of facilities in the District—a little more than in the remainder of the country—was for the production of aircraft, ships, ordnance, and explosives. Table II shows that 597 million dollars was spent to increase capacity for the production of aircraft—about 16 per cent of total investment in such facilities throughout the country. More than a third of the District's new facilities are located in the Buffalo area, which includes Erie and Niagara Counties,

where three large new plants (operated by General Motors, Curtiss-Wright, and Bell Aircraft) were constructed. The considerable expansion of the Brooklyn Navy Yard and of private yards in the New York-New Jersey harbor area accounts for the major part of the 335 million spent in the Second District on shipbuilding and repair facilities.

A total of 343 million dollars was invested in the manufacture of ordnance, such as motorized vehicles, guns, and ammunition in the District. Such expenditures consisted mostly of additions to existing plant and equipment in the major industrial areas. No one county accounted for as much as 10 per cent of this dollar volume, although expansions in New York City aggregated 57 million, mainly for production of instruments and fire control equipment, rather than for heavy goods such as guns and tanks. Only a small part of the facilities added throughout the country for the manufacture and loading of explosives was located in this District.

Expansion of the electrical equipment industry in the District cost 200 million, or nearly 25 per cent of the total for the country, which corresponds to the District's share in the industry before the war. New plant and equipment were added in several areas of the District and a large part of new facilities was financed with private funds and may be considered a permanent addition to the industry's productive capacity.

The share of the District in the dollar volume spent throughout the country on nonmunitions facilities is not very large. In general, facilities additions followed closely the pattern of prewar location. No synthetic rubber facilities have been built in this District. Expansion for the output of chemicals and petroleum products cost 120 million or about 5 per cent of the total for the industry. Half of this amount went to the Northern New Jersey area, which was the largest chemical producing area in the country in 1939; the remainder was concentrated in Buffalo and New York City. Expansion was predominantly financed by private funds and, therefore, will not present much of a disposal problem. A third of the 99 million dollar expenditure in the District for the production of iron and steel was in the Buffalo area. Although the 125 million invested in the District in the nonferrous metals industry was only about 8 per cent of the total for the country, New York State was one of seven States having authorizations exceeding 100 million dollars. Most of this was spent on two aluminum plants in Maspeth (Queens County, publicly financed), and Massena (St. Lawrence County, mixed financing).

The 2.1 billion dollars spent during the four years represents approximately 1,800 separate projects, but 37 new plants or expansions, costing 10 million or more each, accounted for 57 per cent of the dollar volume. All but six of these large projects were financed by public funds, either entirely or to a very large extent. The expansion of the Brooklyn Navy Yard alone accounts for nearly one tenth of all funds spent in this District on wartime manufacturing facilities. Fourteen other projects, exceeding 25 million each, represent 32 per cent of

Table I
Financing of Manufacturing Facilities Expansion, July 1940 to May 1944
Second Federal Reserve District

Industry	Total expenditures, in millions of dollars	Per cent of total	
		Public	Private
All industries.....	2,059.6*	70	30
Aircraft.....	596.5	89	11
Ships.....	335.4	88	12
Ordnance and explosives.....	407.2	84	16
Iron and steel.....	98.8	53	47
Nonferrous metals.....	125.1	53	47
Electrical equipment†.....	230.8	38	62
Chemicals and petroleum products.....	120.4	28	72
Food and other.....	145.3	27	73

* Data do not add to total because of rounding.

† Includes about 30 million dollars of machine tools.

Source: War Production Board, *The Geographic Distribution of Manufacturing Facilities Expansion, July 1940 to May 1944*; partly estimated by Federal Reserve Bank of New York.

Table II—Manufacturing Facilities Expansion by Industry, July 1940 to May 1944, Second Federal Reserve District*
(In millions of dollars)

Locality	Total	Aircraft	Ships	Ordnance and explosives	Metals	Electrical equipment†	Chemicals and petroleum products	Food and other manufacturing
Total Second District	2,059.6	596.5	335.4	407.2	223.9	230.8	120.4	145.3
New York State	1,383.0	350.5	249.8	308.1	172.6	123.8	62.3	115.9
New York City	376.4	18.2	211.4	57.4	35.3	16.9	10.9	23.3
Buffalo-Niagara Falls area	408.4	225.7	6.3	60.1	38.8	24.6	39.6	13.3
Rochester area	67.4	0.3	0.7	25.1	10.1	10.0	1.0	20.2
Syracuse area	73.1	7.2	16.6	30.9	3.8	10.3	3.8	0.5
Albany-Schenectady-Troy area	83.6	—	8.9	47.1	3.7	21.8	0.3	1.9
Remainder of State	374.1	99.1	5.9	87.6	77.9	40.3	6.7	56.7
Northern New Jersey	596.4	224.7	85.5	73.7	45.0	82.9	57.7	27.0
Newark-Jersey City-Paterson area**	556.7	224.4	85.4	58.4	42.5	79.5	42.0	24.5
Other	39.8	0.3	0.1	15.4	2.5	3.3	15.7	2.5
Fairfield County, Conn.	80.2	21.4	0.1	25.3	6.3	24.2	0.4	2.5

* Data do not necessarily add to totals because of rounding.

† Includes about 30 million dollars of machine tools.

** Bergen, Essex, Hudson, Middlesex, Passaic, and Union Counties.

Source: War Production Board, *The Geographic Distribution of Manufacturing Facilities Expansion, July 1940 to May 1944*.

the total. The size of the individual plant will be important in considering the utilization of these facilities. Many of them consist of several units at the same location which could be disposed of and operated separately.

New facilities have generally been located in the major industrial areas of the District, and no new wartime industrial centers of any importance have been created in regions where manufacturing was not already prominent before the war. It is noteworthy, however, that the geographic distribution of wartime facilities differs from the prewar distribution of manufacturing activity throughout the District in that a relatively larger portion is located in Northern New Jersey than in New York State. The greater concentration in the New Jersey section of the District is even more evident if investment in new plants alone is considered. In Northern New Jersey (and also in Fairfield County, Connecticut) a considerably larger proportion of total facilities additions was financed privately than in New York State.

DISPOSAL OF WARTIME FACILITIES

It is not possible at this early date to estimate to what extent and how rapidly wartime facilities will be converted to peacetime use. It may be assumed that in every case where facilities have been financed by private funds, the expansion was undertaken because the postwar use of such facilities appeared certain and because wartime legislation provided for accelerated amortization. Of the 1.5 billion dollars of public funds spent in this District, a major part has been used to equip either private or Government plants with machinery necessary to produce war goods. The disposal of this machinery, the market value of which has been reduced, of course, by use and obsolescence, is largely a national problem since machine tools can be disposed of separately and beyond the limits of the District, or even exported. Some equipment, however, can be salvaged only if sold together with factories. Of the 570 million dollars

of public funds spent on construction, 140 million was spent on Navy yards and Government arsenals. They represent largely permanent additions to our military installations and do not belong to the category of disposable surplus factories. The main disposal problem in this District, as far as plants are concerned, is, then, the disposal of factory buildings costing about 430 million dollars. Very large plants in the Buffalo and the Paterson areas represent almost one fourth of this surplus factory space.

In general, there are two major problems involved in the disposal of surplus war plants: the pricing of facilities built at inflated wartime costs and the possible utilization, under a system of multiple leases, of the largest units, for which no single buyer can be found. The disposal process will take considerable time, and in many cases temporary lease arrangements may precede final sale. An expanding economy will require additional production capacity, so that the demand for plants built during the war will depend in part on the future level of economic activity, as well as the location and suitability of the facilities for peacetime production. By the middle of October, only four of the larger plants had been disposed of in the Second District, although some of the wartime operators had expressed the intention to take advantage of their options and numerous sales and leases were being negotiated.

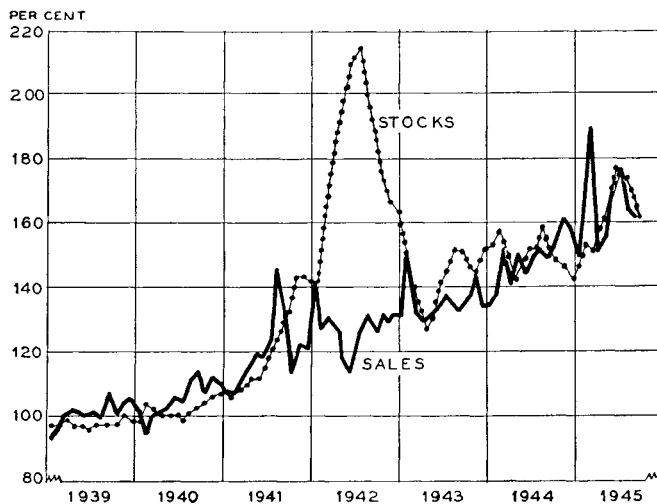
DEPARTMENT STORE TRADE

Shifts to a peacetime economy have brought about increased consumer demand for many types of department store merchandise. During the last few months purchases of men's clothing have been exceptionally heavy. This demand has depleted the supplies on hand in the department stores, and new merchandise is coming in slowly. At the close of September, Second District department stores reported that stocks of men's clothing were 30 per cent below those one year earlier and 25 per cent below the 1939 level. Sales in the furniture and house-

wares departments have also increased substantially during the last few months. In these departments, however, the merchandise supply on hand and in the wholesale market is reported adequate to meet the demand. At the end of September furniture stocks in the department stores were 14 per cent above those on September 30, 1944; stocks of housewares were 33 per cent higher in dollar value. Comparison with the prewar level shows an increase of over 50 per cent for both types of merchandise. Two departments, domestics and floor coverings, have turned in unfavorable sales records this year because of acute merchandise shortages. At the close of September stocks of sheets and pillow cases were 44 per cent below the year-earlier level and 60 per cent below 1939. The corresponding figures for floor coverings were 12 per cent and 40 per cent, respectively.

Sales of department store merchandise as a whole during October were exceptionally high in this District, approximately 20 per cent above those of a year earlier. After adjustment for seasonal variations and differences in the number of shopping days, the index for October recovered to the July peak and was only about 5 per cent below the all-time high of last March. Sales so far this year have been running 10 per cent above the 1944 average and 65 per cent higher than in 1939. The dollar volume of department store stocks as a whole on September 30 was 6 per cent higher than a year ago, and 65 per cent above the prewar level. The accompanying chart shows that the increases in dollar sales and in dollar stocks over the war period as a whole have been identical. Sales this year will establish another new record; stocks are currently 25 per cent below the peak reached in July 1942, when anticipated shortages occasioned the piling up of inventories to the highest point on record.

Indexes of Department Store Sales and Stocks, Second Federal Reserve District, Adjusted for Seasonal Variation*
(1935-39 average=100 per cent)



* The index of stocks has been revised and carried back to 1919.
Source: Federal Reserve Bank of New York.

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

Locality	Net sales		Stocks on hand Sept. 30, 1945
	Sept. 1945	Jan. through Sept. 1945	
Department stores, Second District.....	+ 4	+12	+ 6
New York City.....	+ 5	+13	+ 6
Northern New Jersey.....	+ 2	+12	+ 8
Newark.....	+ 3	+13	+10
Westchester and Fairfield Counties..	- 3	+ 8	+12
Bridgeport.....	- 6	+ 3	+ 4
Lower Hudson River Valley.....	+ 1	+14	- 1
Poughkeepsie.....	+ 4	+14	- 4
Upper Hudson River Valley.....	+ 9	+15	+ 5
Albany.....	+24	+21	+11
Schenectady.....	- 4	+10	+ 0
Central New York State.....	- 4	+10	+ 4
Mohawk River Valley.....	- 7	+ 4	- 7
Utica.....	- 7	+ 3	- 7
Syracuse.....	- 2	+13	+12
Northern New York State.....	+ 6	+17	- 1
Southern New York State.....	+ 2	+12	+ 7
Binghamton.....	+ 2	+15	+ 9
Elmira.....	+ 1	+ 9	+ 2
Western New York State.....	0	+ 9	+ 7
Buffalo.....	0	+ 7	+ 5
Niagara Falls.....	- 2	+ 8	-13
Rochester.....	0	+11	+13
Apparel stores (chiefly New York City).	+15	+22	+ 5

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

Item	1944	1945		
	Sept.	July	August	Sept.
Sales (average daily), unadjusted.....	158	118	120	171
Sales (average daily), seasonally adjusted..	149	176	165	161
Stocks, unadjusted*.....	164	160	173	174
Stocks, seasonally adjusted*.....	152	174	170	161

* Indexes revised; available upon request from 1919 to date.

Indexes of Business

Index	1944	1945		
	Sept.	July	August	Sept.
Industrial production*, 1935-39 = 100..... (Board of Governors, Federal Reserve System)	230	210r	187	172p
Electric power output*, 1935-39 = 100..... (Federal Reserve Bank of New York)	199	202	195	187p
Ton-miles of railway freight*, 1935-39 = 100 (Federal Reserve Bank of New York)	217	233	196p	—
Sales of all retail stores*, 1935-39 = 100 .. (Department of Commerce)	179	191	190p	—
Factory employment United States, 1939 = 100..... (Bureau of Labor Statistics)	166	146	143	124p
New York State, 1935-39 = 100..... (New York State Dept. of Labor)	146	128	128	117p
Factory payrolls United States, 1939 = 100..... (Bureau of Labor Statistics)	334	287	258p	—
New York State, 1935-39 = 100..... (New York State Dept. of Labor)	289	249	232	215p
Income payments*, 1935-39 = 100..... (Department of Commerce)	233	243	237p	—
Wage rates, 1926 = 100..... (Federal Reserve Bank of New York)	167	170	169p	—
Cost of living, 1935-39 = 100..... (Bureau of Labor Statistics)	127	129	129p	—
Velocity of demand deposits*, 1935-39 = 100 (Federal Reserve Bank of New York)				
New York City.....	80	94	87	82
Outside New York City.....	76	76	72	71

* Adjusted for seasonal variation. p Preliminary. r Revised.

FEDERAL RESERVE BANK OF NEW YORK

MONTHLY REVIEW, NOVEMBER 1945

General Business and Financial Conditions

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

Output and employment at factories producing war products declined further in September but production and incomes in most other sectors of the economy were maintained or increased somewhat. Retail buying in September and the first half of October continued above year ago levels.

INDUSTRIAL PRODUCTION

Industrial production declined eight per cent in September, reflecting mainly the continued rapid liquidation of output for war purposes, and the Board's seasonally adjusted index was 172 per cent of the 1935-39 average as compared with 187 in August and 210 in July.

Reduced activity in the machinery and transportation equipment industries continued to account for most of the decline in the total index. Output in these industries during September was about one-fifth below the August average and one half of the rate at the beginning of the year. Steel production, on the other hand, was five per cent larger in September than in August. In the first three weeks of October, however, steel mill operations declined substantially owing largely to a temporary reduction in coal supplies. Output of nonferrous metals, lumber, and stone, clay, and glass products decreased somewhat in September.

Production of nondurable goods, as a group, showed little change in September, as further reductions in output of war products in the chemical, petroleum, and rubber products industries were offset by increases in output of most civilian-type products. Output of textile yarns and fabrics, shoes, meats, beverages, cigarettes, and paper products increased.

Output of minerals declined in September owing mainly to an eight per cent decrease in crude petroleum production. Coal production increased in September but in the first three weeks of October dropped sharply as a result of work interruptions at bituminous coal mines.

Contracts awarded for private construction, according to the F. W. Dodge Corporation, increased further in September, reflecting the largest volume of awards for nonresidential building in many years. Private residential awards showed little change and publicly-financed construction declined further.

EMPLOYMENT

Employment at factories showed a decline of about 600,000 during the month of September, as compared with a decrease of 1,600,000 workers during August, reflecting a much smaller reduction of munitions employment in September and some increases in other industries. Employment in most nonmanufacturing lines, except Government service, was maintained or increased slightly, after allowing for seasonal changes.

DISTRIBUTION

Department store sales in September showed about the usual sharp seasonal increase and the Board's adjusted index was 199 per cent of the 1935-39 average. This was at the same high level as the average for the first half of 1945 and was seven per cent above that for September 1944. In the first two weeks of October sales were 11 per cent larger than in the corresponding period last year.

The total volume of railroad revenue freight was maintained in September at the August rate and was only eight per cent lower than last year's high level. In the early part of October shipments of coal and coke declined substantially as a result of the drop in coal production.

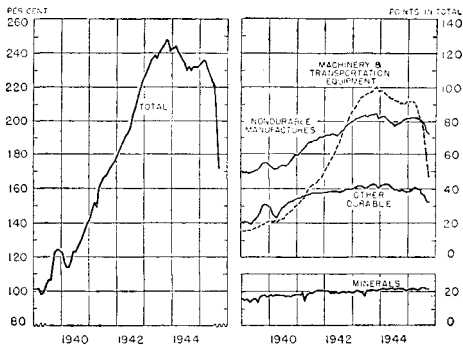
COMMODITY PRICES

Prices of cotton, grains, and most other farm products increased somewhat from the middle of September to the middle of October, following decreases in the previous six weeks. Prices of most industrial products continued to be maintained at Federal maximum levels.

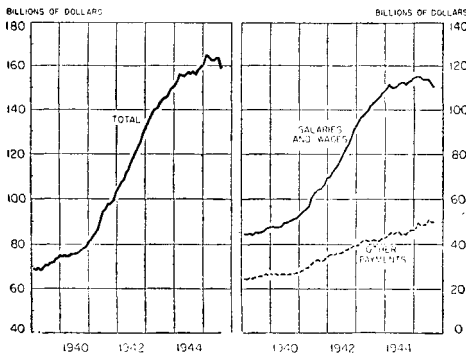
BANK CREDIT

Rising reserve requirements, resulting from expanded deposits of businesses and individuals, and an increase in currency in circulation accounted for continuing needs for reserve funds by banks between the middle of September and the middle of October. These needs were supplied through decreases in Treasury and nonmember deposits at Federal Reserve Banks. The amount of Reserve Bank credit outstanding showed little change in the period. Money in circulation increased by 175 million dollars during the four weeks ended October 17; this was a smaller growth than has been customary in recent years reflecting in part some currency inflow following the mid-September tax date. Holdings of Government securities and member bank borrowing at the Reserve Banks increased fairly substantially in the latter part of September concurrent with a temporary rise in Treasury deposits, but both were later reduced. This reduction in security holdings was in Treasury bills and accompanied an increase in member bank holdings of bills.

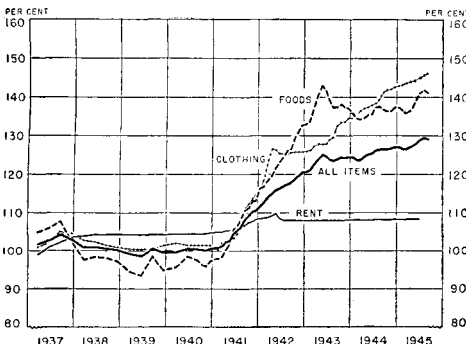
At reporting banks in 101 leading cities loans for purchasing and carrying Government securities declined by 550 million dollars during the four weeks ended October 17; commercial loans increased somewhat, and holdings of securities showed little change in the aggregate. Loans on Government securities remained well above amounts outstanding immediately prior to the Seventh War Loan.



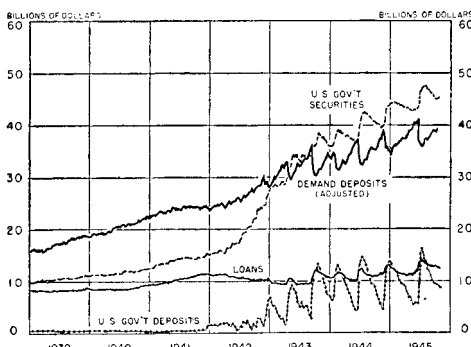
Indexes of Physical Volume of Industrial Production, Adjusted for Seasonal Variation, 1935-39 Average=100 Per Cent (Groups shown are expressed in terms of points in the total index)



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



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



Member 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 October 17)