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MONEY MARKET IN JANUARY

One of the outstanding developments in the financial markets in January was a sharp increase in Government security prices, particularly in prices of long term bonds restricted in ownership to nonbank investors. The money market was considerably easier, reflecting the first substantial return of currency from circulation since the start of the war, large net disbursements by the Treasury from its balances in the Reserve Banks, and a moderate increase in the monetary gold stock. Gains to bank reserves from these sources were only partly offset by an increase in reserve requirements resulting from the customary postdrive shift of deposits from War Loan to private accounts, which were on a considerably smaller scale than after preceding War Loan drives. The consequent ease in bank reserve positions led to a broadening of the banks' demand for Government obligations to include short term issues, especially certificates of indebtedness, and to a substantial retirement of Federal Reserve credit.

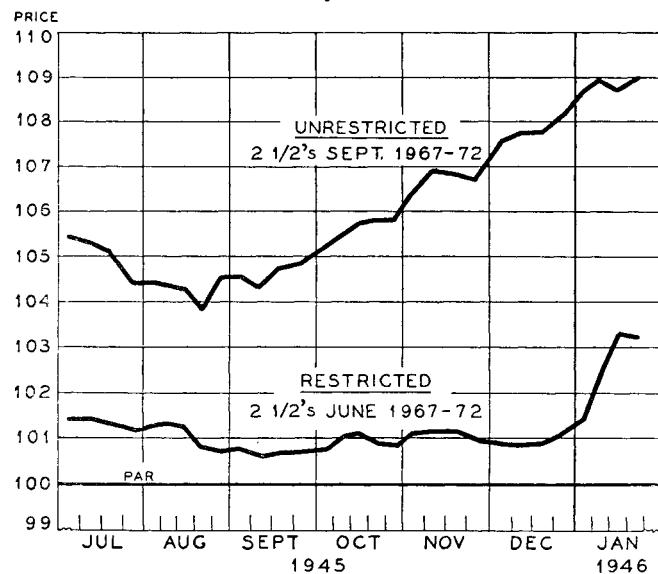
The process which developed during the war whereby non-bank investors acquired long term restricted Treasury bonds, partly with funds obtained from the sale of unrestricted bonds to commercial banks, continued at an accelerated rate during January. A growing feeling that, since the funds raised by the Treasury in the Victory Loan were substantially in excess of probable requirements for some time to come, the Treasury might offer no further issues of long term securities for an extended period, was a major factor in the steep rise in the prices of restricted bonds.

The rise in prices of long term restricted bonds was much sharper than that of bonds which the banks are eligible to purchase. To a large extent, the relatively moderate advance in eligible Treasury bonds in January may be attributed to the high prices previously attained as the result of a marked upward movement during most of last year, as illustrated in the accompanying chart, which shows the price trends of an issue of unrestricted bonds (the 2½'s of September 1967-72) and of restricted bonds (2½'s of June 1967-72). Longer term restricted bonds showed no comparable rise in 1945, and as shown in the chart, the June 2½'s of 1967-72, issued in the Seventh War Loan drive, never exceeded 101½ (based on closing bid prices) up to the end of December. By

the middle of January, this issue and the new 2½ per cent bonds offered in the Victory drive surpassed 103, and the new 2¼ per cent Victory Loan bonds reached a premium of 2¼ points. Some temporary weakness then developed in the market for Treasury bonds, but prices turned upward again in the latter part of the month and the longest 2½ and 2¼ per cent restricted bonds rose to new high levels, at premiums of more than 3½ and 2½ points.

The advance in Treasury security prices (decline in yields) was not confined to long term bonds, but occurred in some degree across the entire list of Government issues. Insistent demands of the banks for certificates of indebtedness during the month brought the yield for the longest issue to 0.78 per cent in the third week of January from 0.85 per cent at the end of December, reflecting chiefly the easier reserve positions of the banks. Because of lack of market supply, the Federal Reserve System became the chief supplier, selling large amounts from its holdings. Despite the strength in this section of the market, the gap between the yield on the one-year Treasury certificates

Prices of Restricted and Unrestricted Long Term Treasury Bonds*



* Closing bid prices, Wednesday dates. Latest figures are for January 23.

and medium term maturities of bonds was narrowed to less than $\frac{1}{4}$ per cent for bonds callable in 3 years and to less than $\frac{1}{2}$ per cent for bonds callable in 6 years.

Yields on both high and second grade corporate bonds moved in consonance with those of Government bonds and also reached new low points in January. Moody's average of Aaa bond yields fell to $2\frac{1}{2}$ per cent and the average of Baa corporate bonds to less than 3 per cent. Stock prices moved irregularly higher with new peaks scored in the averages.

MEMBER BANK RESERVE POSITIONS

The ease in member bank reserve positions which promoted the strong bank demand for short term Government obligations was brought about mainly by a very considerable return flow of currency from circulation and by large Treasury cash expenditures in excess of receipts. A 70 million dollar increase in the monetary gold stock and other foreign account transactions in the four weeks ended January 23 also tended to expand bank reserves. The aggregate of all these transactions was far larger than those tending to absorb reserves and to increase reserve requirements.

There were indications during the past month that the influence of the war on public demands for currency had greatly diminished, and might even have ended. Currency in circulation fell some 672 million dollars in the four weeks ended January 23, the largest January return flow of currency on record, exceeding the prewar seasonal movement by 200 to 300 million dollars. Although the contraction came after the largest Christmas trade in history, and appears to have been mainly seasonal, the decline may also have been caused in part by other short-run factors. These include the payment in January of fourth quarter instalments of 1945 personal income taxes, and possibly a temporary decrease in currency requirements for payrolls, owing to the further spread of strikes. Nevertheless, the size of the return flow suggests that the war-time growth in currency circulation has largely spent itself.

The gradual shrinkage in the gold stock of the United States, which got under way after this country entered the war and was attributable to heavy expenditures abroad for commodities and for the maintenance of our Armed Forces, also seems to have come to an end. In fact, since the low point was reached in the first week of December 1945, this country's gold stock has increased by more than 100 million dollars. A large part of this increase occurred in the two weeks ended January 23.

Treasury cash disbursements greatly exceeded cash receipts in the three weeks ended January 16, and the Treasury's deposits with the Federal Reserve Banks, which amounted to 1,199 million dollars on December 26, fell 927 million to 272 million on January 16. In the following week, the Treasury made a moderate withdrawal of funds from War Loan deposits to replenish its balances with the Reserve Banks, which rose to 578 million dollars on January 23. Treasury expenditures during the month were augmented by refunds of excess profits

taxes which amounted to more than 800 million dollars in the first three weeks. Collections of income taxes, other than withheld taxes, amounting to almost one billion dollars (exclusive of 160 million dollars of Savings notes turned in in lieu of cash), were substantially heavier than for the corresponding period of 1945, but the Treasury limited its War Loan withdrawals to 921 million dollars between January 4 and 9 and 348 million on January 17 and 18, as a means of bringing its balances in the Reserve Banks to more normal levels.

The additions to member bank reserves enabled the banks to retire considerable amounts of Federal Reserve credit, principally by acquiring large amounts of Treasury certificates of indebtedness indirectly from the Federal Reserve Banks through the market. They also reduced their borrowings from the Reserve Banks by 270 million in the first week of this period and by small amounts in the following three weeks, and utilized their Treasury bill holdings and excess reserves to meet temporary needs for funds. On the whole, member banks acquired bills from the Treasury and the Reserve Banks in the first three weeks of this period, but sold substantial amounts in the week ended January 23 when Treasury receipts exceeded disbursements by a substantial margin.

Strength in the securities markets was accompanied by a substantial inflow of funds into the New York market, which was only partly offset by a reduction in correspondent bank balances with City institutions, so that the New York City banks shared in the generally easier situation of member banks with respect to reserve positions.

MEMBER BANK INVESTMENTS

The persistent bank demand for Government bonds in January was reflected in net purchases of 491 million dollars of bonds by the weekly reporting member banks in 101 cities between December 26 and January 23. Of this total, New York central reserve city banks acquired 212 million and reporting banks in the other 100 cities 279 million. In the first few days of this period, toward the close of December, the member banks sold certificates and notes (taken together because of an exchange of notes for certificates), in order to reduce their borrowings from the Reserve Banks shown in their year-end statements, but subsequently an active bank demand for such securities developed. In the two weeks ended January 16, the New York City reporting member banks added 227 million to their holdings of Treasury certificates and notes and reporting banks in other parts of the country added 194 million. As against the 421 million dollars of certificates and notes taken by all weekly reporting banks, the Federal Reserve Banks sold 495 million, indicating the virtual absence of selling from other sources. These sales by the Reserve Banks had the combined effect of exercising a stabilizing influence on the market and of absorbing surplus funds in the banking system. In the week ended January 23, the Federal Reserve Banks made further net sales of 377 million dollars of certificates of indebt-

edness and notes, most of which apparently were acquired by banks in other parts of the country or by nonbank investors, since the New York City banks also made net sales of 31 million of those types of securities.

TERM LOANS

The growing importance of term loans to business—those maturing in more than one year up to 5 or 10 years and occasionally more—was acknowledged by several officials of leading New York City banks at recent annual meetings of their stockholders. Although this growth is not a tendency that has just appeared in the last year or so, the term loan is of relatively recent origin having first been developed a little more than ten years ago. During the war, the expansion of term loans was greatly stimulated as a result of the extension of a substantial volume of war production loans, many of which matured in more than one year. In addition, the continuation of the prewar decline in interest rates was also responsible for a marked increase in the last year or two in new term credits for the purpose of retiring outstanding corporate securities, thus enabling borrowers to effect substantial savings in annual interest charges.

The expansion of term loans during the war is shown in the accompanying chart. The data represent the totals of new commercial and industrial loans maturing in more than a year made by a number of member banks in 19 cities in various parts of the country during the first 15 days of March, June, September, and December of each year from 1939 through 1945. The data therefore do not measure the entire volume of loans made by the reporting banks for any one year, and so do not necessarily measure accurately the changes from one year to the next, since the periods of peak lending may not coincide with those for which reports are made. Thus, although a decline is shown for the 1945 reporting periods from those in 1944, the indicated reduction in lending volume

may be open to question. It is believed, however, that the data do reflect the trend over a number of years.

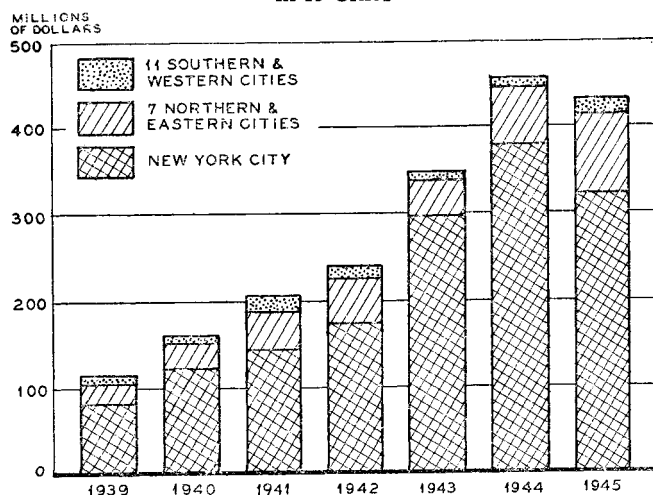
The reports cover the term lending activities of 87 of the larger member banks (and their important branches) in principal cities. As illustrated in the chart, the bulk of the loans were made by the New York City banks, which accounted for more than three quarters of the total volume for the entire period. In contrast, the New York banks made less than a fourth of the number of loans.

Total term loans for all four reporting periods in 1939 aggregated 113 million dollars, as compared with 457 and 432 million in the corresponding periods of 1944 and 1945, respectively. The level of new term loans made in the 1945 period was four times that of 1939 among banks in New York City and 7 Northern and Eastern cities, but among the institutions reporting from 11 Southern and Western cities it was only twice the volume of the 1939 period, despite the greater wartime industrial expansion of the South and West. Among the reasons that may be cited for the failure of new term loans of banks in the latter areas to grow with the sharp rise in industrial activity are: (1) the Treasury financed most of the wartime industrial expansion; (2) most of the new war plants were operated by established, large corporations with long standing banking connections in the East; and (3) many of the term loans for war purposes were too large for most of the banks of the South and West to handle, except, perhaps, in participation with banks in the principal financial centers. In this connection, it is interesting to note that for all term loans reported from 1939 to 1945, the average size of loans made by New York City banks was 800 thousand dollars, against an average loan size of 95 thousand dollars for the banks in 7 other Northern and Eastern cities and 30 thousand for the Southern and Western reporting institutions.

It appears that, while the amount of term loans extended by New York City banks in each of the four periods in 1945 was lower than in the corresponding periods in 1944 so that the total reported for the 1945 period was 15 per cent less than in 1944, new peaks were scored in 1945 in the volume of term loans made by institutions in the other cities. Although some caution should be used in comparing changes in these figures over short periods of time, since the periods covered by the reports may not be typical of the year as a whole, the decline in term lending in New York City is nevertheless somewhat surprising in view of the frequent press reports of large term loans arranged by large business corporations with leading City institutions.

If the data reported for 1945 accurately portray the changes in lending activities, they may throw some light on the nature of the recent expansion of business loans among weekly reporting member banks, since the New York City banks reporting term loans include 12 of the 16 banks reporting weekly condition statements. New York City weekly reporting member banks had an important share in the 1½ billion dollar

New Term Loans Made By Selected Member Banks
in 19 Cities*



* Figures represent totals of new loans maturing in more than one year made in the first fifteen days of March, June, September, and December of each year.

expansion of commercial, industrial, and agricultural loans of all weekly reporting banks in 101 cities from the end of May to the end of December 1945, accounting for 42 per cent of the increase, in contrast to 32 per cent of a 672 million dollar advance in such loans in the corresponding period of 1944. It would appear, therefore, that the growth in business loans in 1945 may have consisted more largely of short term commercial loans than did the 1944 increase. The data on short term loans reported to the Federal Reserve Bank of New York indicate that New York City banks granted a substantially larger volume of new business loans maturing in a year or less during the 1945 period than in 1944.

The term loan has been typically a fairly large loan made to a sizable business corporation and has been designed by the banks to meet the changing financial needs of such enterprises. Term loans, particularly the larger ones, are often made by a syndicate of banks, the institution originating the loan acting as manager and earning a fee for its services. Judgment as to the quality of the loan involves an investment analysis based on the borrower's earning power and the longer term outlook for the industry in which the borrowing organization operates. Dealing directly with the borrower, the bank has greater control of the credit and can prescribe safeguards in the term loan agreement which may not be had by purchasing new or outstanding corporate obligations. As against corporate fixed interest securities, however, term loans have the disadvantage of lack of marketability.

The American Bankers Association through its Postwar Small Business Credit Commission is undertaking to promote the application of the term loan technique to small business. Although this campaign, if successful, may open up a large new market for term loans, much of the increase may take the place of short term business loans subject to renewal.

NATIONALIZATION OF BANKING IN FRANCE

On December 2, 1945 the French Constituent Assembly enacted a law nationalizing, as of January 1, 1946, the Bank of France and certain of the big commercial banks and providing for the control and supervision of the banking and credit system.

By the terms of the law, the shares of the Bank of France were "transferred to the State, which owns them," and the councilors (directors) and auditors designated by the former shareholders ceased exercising their functions. The bank's note issue privilege, which had been due to expire on December 31, 1945, was extended for an indefinite period. A second law, to be promulgated by February 28, 1946, is to define the bank's new statutes, the composition of its General Council (Board of Directors), and its tax status.

The Bank of France shareholders are to receive, in exchange for their stock, negotiable registered bonds issued by the bank. The redemption value of these bonds is to be equivalent to the

liquidation value of the shares, as fixed by a special committee consisting of two designated government officials and a representative of the shareholders appointed by the Minister of Finance. The liquidation value of the shares is not to exceed their average quotation between September 1, 1944 and August 31, 1945, or their price on the Paris Bourse between September 1, 1945 and the date on which the liquidation value is fixed. The type of bonds to be issued to the shareholders and the terms of their redemption (which is to take place within 50 years) are to be fixed by a decree of the Minister of Finance. The bonds bear interest at a rate "which cannot exceed 2 per cent," and the interest paid for 1945 and 1946 cannot exceed the dividend for 1944. Interest payments will be met by the Bank of France under a Treasury guarantee; redemption will be effected by the Treasury.

In judging the importance of the change in ownership and administration of the Bank of France, it should be remembered that the Governor and the First and Second Vice Governors of the Bank of France have been appointed by the government since 1806; and that the General Council, which administers the bank, has contained since 1936 only two members elected by the shareholders, all the rest (12 members since the last revision in 1944) having been government appointees.

Four deposit banks were nationalized by the new law: the *Crédit Lyonnais*, the *Société Générale*, the *Comptoir National d'Escompte de Paris*, and the *Banque Nationale pour le Commerce et l'Industrie*. These are the four largest commercial banks in France; they have a country-wide network of branches and in November 1945 held about 55 per cent of all French bank deposits. As of January 1, 1946 the nationalized banks were "transferred to the State in full ownership with all their assets" and the powers of administration and control were assumed by new boards of directors, each of twelve members: four appointed by the Minister of National Economy to represent industry, commerce, and agriculture; four appointed by the labor unions under rules established by the Ministers of Finance and Labor (two of these to be members of the staffs of the nationalized banks); two appointed by the Minister of Finance to represent the Bank of France and official credit institutions; and two chosen by the Minister of Finance among persons with extensive banking experience.

The nationalized banks are to deliver to their shareholders, in exchange for the shares surrendered to the State, registered profit-sharing certificates ("parts bénéficiaires") which are to entitle them to a profit distribution to be fixed annually by the boards of directors. The amount distributed is not to be less than the dividend paid on the shares for the year 1944, and is guaranteed by the State. Beginning January 1, 1947 the profit-sharing certificates are to be repurchased by the State, over a 50-year period, at the average quotation of the shares on the Paris Bourse between September 1, 1944 and October 31, 1945.

The nationalized banks remain separate legal entities and continue to be subject to the ordinary commercial legislation. Their directors and managers are to continue to maintain professional secrecy. The status of their personnel remains unchanged.

Any incorporated investment bank (*banque d'affaires*) with resources exceeding 500 million francs is placed by the new law under the supervision of a government commissioner designated by the Ministers of National Economy and Finance. At least two banks, the *Banque de Paris et des Pays-Bas* and the *Banque de l'Union Parisienne*, are in this category. Each commissioner is assisted by a committee appointed by the Ministers of National Economy, Finance, and Labor, and consisting of a representative of industrial and trade associations, a labor union representative, and a representative of the official credit institutions. The commissioner is to be present at all meetings of directors and at the general assemblies of shareholders; he can examine any of the banks' documents; he can veto any decision "contrary to the national interest" which is taken by the board of directors or the general assembly of shareholders; and he can propose any measures which appear to him to be in the "general interest" and, in particular, any which correspond to the "requests or decisions" of the National Council of Credit (see below). The bank can appeal against the veto of the government commissioner to the National Council of Credit.

Apart from the above measures, the new law contains provisions regarding the general control of banking and credit. No general banking legislation or State supervision of banking or credit existed in France before the war. Three categories of banks are provided for: deposit banks, investment banks, and medium and long term credit banks. Every bank must declare itself in one of these categories to the Banking Control Commission (see below) within three months of the promulgation of the law; and unless an extension of time is granted, it must conform within a year to the regulations applicable to its category. Deposit banks are defined as banks receiving deposits at sight or for a maximum term of two years. They may not participate in enterprises other than banks and financial institutions to an extent exceeding 10 per cent of the capital of the enterprises, and in general they will not be allowed to invest their deposits in real estate. The investment banks are those whose principal activity consists in holding and administering participations in enterprises. They may accept deposits of one year or less only from their staff, from persons associated in the ownership, or from enterprises in which they hold or originally held 15 per cent of the capital. The long and medium term credit banks are State-controlled banks operating under special legislation and under a State-appointed chairman, general manager, or governor.

The nationalization law entrusts supervision of the credit system to two organs—the National Council of Credit and the Banking Control Commission. One of the government minis-

ters is to be Chairman of the National Council of Credit; but the Chairman can delegate his powers to the Governor of the Bank of France, who is Vice Chairman *ex officio*. In addition to the Chairman and the Vice Chairman, the Council consists of 38 members: ten representing various economic associations and appointed by the Minister of National Economy; seven representing the Ministries of National Economy, Industrial Production, Public Works and Transport, Agriculture, Reconstruction and Municipal Planning, and Colonies; seven appointed by the Minister of Finance by reason of their financial or banking ability; and seven representing the official financial institutions. The National Council of Credit has a wide range of functions, mainly of a consultative nature, in such matters as development of banking, concentration of banks, further nationalization of banks, protection of deposits, distribution of bank credit, control of capital issues, financing of reconstruction and foreign trade, etc. It will meet once a month, and will submit an annual report to the Ministers of National Economy and Finance.

The second credit control organ is the Banking Control Commission, with five members: the Governor of the Bank of France (Chairman *ex officio*), the President of the Financial Section of the State Council,* the Director of the Treasury, the director in charge of credit questions at the Ministry of National Economy, and a bank employees' union representative. It exercises "all the powers of investigation, control, and discipline" defined by the laws of June 13 and 14, 1941, regarding the "regulation and organization of the banking profession." (This legislation, enacted under the Vichy administration as part of the "corporative" organization of economic life, provided for a close control of banking.)

In addition to the supplementary Bank of France law which is to be passed by February 28, provision has been made for certain other legislation: (1) A bill dealing with the investment banks has to be placed before the Constituent Assembly by February 2, 1946, as a result of a resolution adopted in the course of the debates, after a compromise had been reached excluding the investment banks from the nationalization; (2) the "fundamental rules" for the operation of the commercial banks are to be determined by two decrees, one for the nationalized banks, the other for the "free sector," to be promulgated before March 2, 1946; (3) regulations relating to export credits and guarantees and to the organization and distribution of long term credits for the modernization of the nation's industrial, commercial, and agricultural equipment are to be promulgated by the government before June 2, 1946.

* The supreme administrative tribunal.

DEVALUATION OF THE FRENCH FRANC

In the last week of 1945 the French Government adopted a series of far-reaching financial measures. A new parity for the French franc was fixed; the Bank of France gold reserve was revalued and part of it transferred to the Exchange

Stabilization Fund; and the government was authorized to requisition gold and foreign assets held by French citizens and corporations. Simultaneously with the devaluation law, the French Constituent Assembly ratified the Bretton Woods Agreements and the Franco-American agreement under which the Export-Import Bank granted France a credit of 550 million dollars.

In a notice published in the *Journal Officiel* of December 26, 1945, the Minister of Finance established the parity of the franc at 119.10669 francs to 1 U. S. dollar and 480 francs to 1 pound sterling. Accordingly, the French Exchange Stabilization Fund has fixed new buying and selling rates for the foreign currencies it handles. The official buying rate fixed for the dollar is 118.90 francs to the dollar (equivalent to \$0.008410 per franc) and the official selling rate 119.30 francs (\$0.008382 per franc). The previous dollar buying rate had been 49.53 francs (\$0.0202 per franc) and the selling rate 49.72 francs (\$0.0201 per franc), so that the new rates represent a devaluation of approximately 58 per cent.

New parities were also fixed on December 26 for the currencies of French overseas territories, most of which had been at par with the metropolitan franc: (1) In Algeria, Tunisia, Morocco, the French Antilles, and French Guiana the local franc currencies will continue at par with the metropolitan franc; (2) in other French African territories and dependencies, Madagascar, Reunion, Saint-Pierre and Miquelon, the local franc (called franc C.F.A., i.e., the French African colonial franc) is now equal to F.fr. 1.70 (equivalent to about \$0.0140); (3) in the French Pacific colonies, the franc C.F.P. (French Pacific colonial franc) is equal to F.fr. 2.40 (about \$0.0200); (4) the new parity of the Indo-Chinese piaster is F.fr. 17.00 (about \$0.1400); (5) the French rupee has been fixed at F.fr. 36.00 (about \$0.3020); and (6) the Syria-Lebanon pound has been fixed at F.fr. 54.35 (about \$0.4560). The rates referred to in items (3), (5), and (6) are virtually the same as formerly prevailed relative to the U. S. dollar; the new rates under (2) and (4) represent a devaluation of about 31 per cent.

The gold reserve of the Bank of France was revalued as a result of a convention concluded between the bank and the government on December 24, 1945, approved by a law of December 26, 1945, on the basis of 134,027.90 francs per kilogram of fine gold (equivalent to 0.0074611 fine grams per franc). The previous rate of valuation, established on February 29, 1940, had been 47,605.45 francs per kilogram fine (0.021006 fine grams per franc). The reduction in the value of the franc, as indicated by this revaluation of the gold reserve, is therefore 72 per cent. The difference between this figure and the above-mentioned 58 per cent devaluation of the exchange rate is due to two circumstances: (1) the divergence which existed early in 1940 between the rate of gold valuation and the official exchange rate; (2) the further depreciation which took place in the franc exchange rate during the first

half of 1940. The gold revaluation increment, amounting to 118 billion francs, has been allocated as follows: (1) 53 billion to the Exchange Stabilization Fund; (2) 10 billion to the readjustment of the exchange clearing balances with Argentina, Belgium, Denmark, Sweden, Switzerland, and Czechoslovakia; (3) 40 billion to the cancellation of negotiable Treasury bonds which the Bank of France had received in exchange for gold transferred to the Exchange Stabilization Fund under agreements of February 29, 1940 and September 20, 1945; and (4) the residue to the credit of the Treasury's account with the Bank of France.

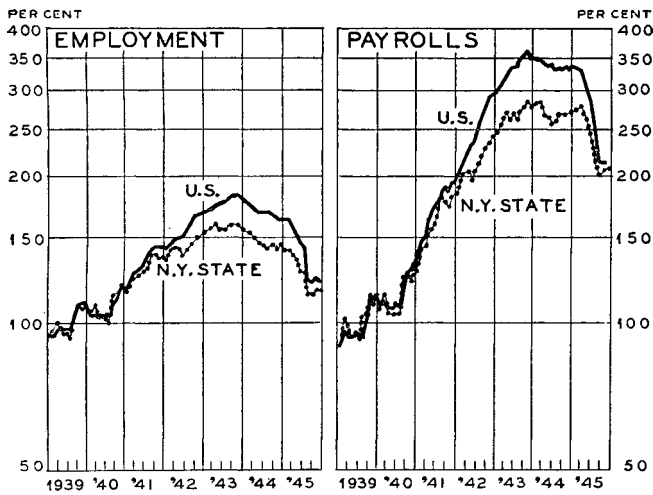
The transfer of 53 billion francs of the gold revaluation increment from the Bank of France to the Stabilization Fund was made in the form of 400 metric tons of fine gold, reducing the bank's gold reserve from about 1,540 million dollars to about 1,090 million dollars. This was the second transfer of gold within three months, as on September 20, 1945, 210 metric tons of fine gold (equivalent to 236 million dollars) had already been ceded to the Stabilization Fund. Prior to that date, the Bank of France gold reserve had remained unchanged at 1,777 million dollars practically throughout the war, the last transfer to the Fund having been effected in March 1940. The recent transfers of gold to the Fund have been necessary in order to replenish foreign exchange holdings which had been reduced by heavy purchases of imports for reconstruction.

EMPLOYMENT TRENDS IN THE SECOND DISTRICT

In the Second District the transition from war to peacetime production was well under way in January 1946. Munitions industries had made the necessary reductions in their working forces and physical reconversion was nearly completed. Layoffs of war workers had not caused widespread unemployment, nor had the reduction in factory payrolls after V-J Day discouraged consumer spending or weakened business confidence. While during the earlier war years the increase in factory employment and payrolls in the District fell short of the national rate, the gap between the trend in the country and in the District was narrowed once the peak in war production had been passed (Chart I). Consumers' goods industries, which predominate in the District, did not enlarge their working forces or lengthen the work week during the war to the same extent as munitions industries. Hence the impact of the termination of war orders was less severe here than in the country as a whole.

Employment in manufacturing for some time had been showing a gradual downward trend in all the industrial areas of the District, even before war contract cancellations assumed major proportions after the victory in Europe. This was due chiefly to shortages of labor and materials, as well as a tapering off in some parts of the war production program, and did not result in unemployment. After the end of the war with Japan, large layoffs accelerated the decline in factory employment. In

CHART I
Factory Employment and Payrolls in the United States
and in New York State, 1939-45*
 (1939 monthly average=100 per cent)



* Plotted on ratio scale to show proportionate changes.
 Source: U. S. Bureau of Labor Statistics and N. Y. State Department of Labor.

Newark, Paterson, and Utica the entire wartime gain was eradicated (Chart II). Layoffs during the first ten months of the year affected over a fourth of those engaged in manufacturing in Bridgeport and an even higher percentage in the Buffalo area, but factory employment in both cities is still at least 25 per cent above the 1939 level. Three other large industrial areas in Upstate New York—Rochester, Albany-Schenectady-Troy, and Syracuse—reacted less strongly to the end of the war, although they had filled large war orders during the past four years; in all three areas the number of manufacturing wage earners remained over 30 per cent higher than in 1939. In several cities, such as New York, Jersey City, and Binghamton, where only a few larger new war plants were located, the shrinkage in factory jobs during 1945 amounted to less than 15 per cent, but gains over 1939 were either small or entirely lacking toward the end of the year.

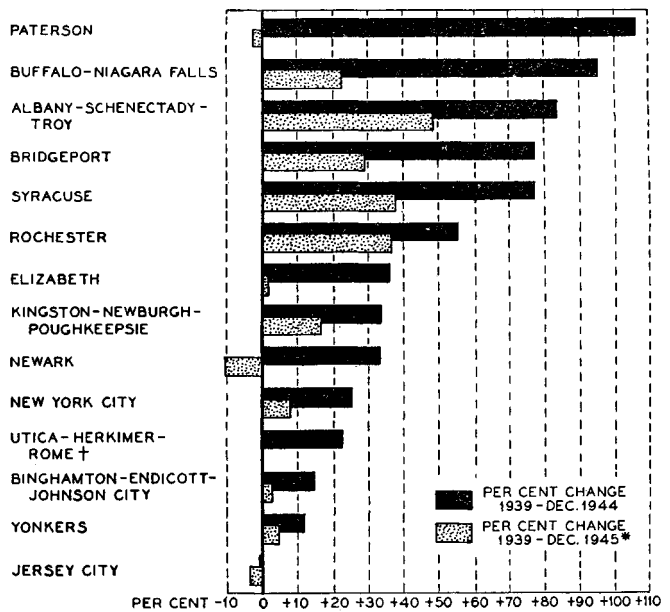
Factory employment in New York State as a whole fell by almost 20 per cent between January and October 1945 to 113 per cent of the 1939 average and then took a slight upward turn. In the New Jersey portion of the District, where war industries employed a larger proportion of industrial workers and where employment during the war increased more rapidly, the decline was probably greater. That the number of factory jobs in the District did not drop to the prewar figure is attributable in large measure to the continued high level of employment in industries that were largely engaged in war production. At the end of the year employment in the metals and machinery group was 50 per cent above the prewar average. Manufacturers of metals, machinery, electrical equipment, locomotives, chemicals, optical goods, scientific instruments, and many other durable goods anticipate a very wide market for some

time and therefore have retained the larger part of their wartime labor force while reconverting. Nonwar industries have not yet achieved any large expansion, however, beyond the relatively high level at which they operated in recent years. Producers of textiles, apparel, shoes, manufactured foods, paints and varnishes, and construction materials—still handicapped by interruptions in the flow of materials and by lack of experienced labor—are operating far below the level which would be warranted by the urgent consumer demand. The current wave of strikes will further delay the expansion of peacetime industries.

As war industries dismissed workers, nonmanufacturing industries added to their staffs under the stimulus of high consumer incomes and deferred demand. Transportation, retail trade, and service establishments hired large numbers of men and women in an effort to restore prewar facilities and services. Construction firms also took up some of the slack in employment, but the expected big rise in building will apparently not come until the spring. Wholesalers are rebuilding their sales organizations, and importers and exporters are reestablishing their contacts abroad. This expansion of nonmanufacturing activities is cushioning the temporary decline in job opportunities in manufacturing.

At the close of the year a little over 6 per cent of the civilian labor force in the District was unemployed. In a period of change-over such as the present a large number of persons must necessarily shift to new occupations and it

CHART II
Changes in Factory Employment in Selected Second District
Cities, 1939-45



† No change from 1939 to December 1945.
 * Latest data for Bridgeport, Yonkers, and the four New Jersey cities are for October 1945.
 Source: U. S. Bureau of Labor Statistics and N. Y. State Department of Labor.

becomes difficult to match job openings and applicants. Therefore, the average period of unemployment between jobs is likely to be fairly long, although unfilled jobs may still be numerous. Unemployment among former war workers (as measured by unemployment insurance claims) has risen steadily from the end of the war in Europe until January, when it approached 325,000; of these about 85,000 were in New York City, 40,000 in Buffalo, and roughly 20,000 in Newark. The number of veterans receiving readjustment allowances in the Second District jumped from 4,500 in May to more than 150,000 in January. This relatively high figure—over 20 per cent of the United States total—reflects the influx of veterans looking for work in New York City. It is interesting to note that in the middle of January 76,000 former servicemen and women were being paid readjustment allowances in New York City, but less than 5,000 in Buffalo, where the employment situation was more discouraging.

Indexes of Business

Index	1944	1945		
	Dec.	Oct.	Nov.	Dec.
Industrial production*, 1935-39 = 100. (Board of Governors, Federal Reserve System)	232	162 _r	168	164 _p
Electric power output*, 1935-39 = 100. (Federal Reserve Bank of New York)	202	180	187	191 _p
Ton-miles of railway freight*, 1935-39 = 100. (Federal Reserve Bank of New York)	215	167	181 _p	
Sales of all retail stores*, 1935-39 = 100. (Department of Commerce)	188	202	216 _p	
Factory employment United States, 1939 = 100. (Bureau of Labor Statistics)	163	121 _r	122	121 _p
New York State, 1935-39 = 100. (New York State Dept. of Labor)	145	116	117	118 _p
Factory payrolls United States, 1939 = 100. (Bureau of Labor Statistics)	337	213	213 _p	
New York State, 1935-39 = 100. (New York State Dept. of Labor)	284	217	220	224 _p
Income payments*, 1935-39 = 100. (Department of Commerce)	239	231	235 _p	
Wage rates, 1926 = 100. (Federal Reserve Bank of New York)	169	167	168 _p	
Consumers' prices, 1935-39 = 100. (Bureau of Labor Statistics)	127	129	129 _p	
Velocity of demand deposits*, 1935-39 = 100. (Federal Reserve Bank of New York)				
New York City	87	84	82	99
Outside New York City	84	68	73	84

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

DEPARTMENT STORE TRADE

Although supplies are still exceedingly thin, consumer purchases of merchandise which had been unavailable during the war years are gradually becoming a factor of some importance in increasing total department store sales. The pent-up demand and ready market for these types of merchandise are expected to contribute substantially to the volume of retail trade in coming months.

During January department store sales in this District are estimated to have exceeded those of a year earlier by more than 20 per cent. After adjustment for seasonal variation, the sales index was unchanged from the November-December level, and only 5 per cent below the all-time high reached last

March. The availability of "white goods" was an important factor in the exceptionally large dollar sales volume last month. In the five prewar years, 1935 through 1939, sales of linens, towels, sheets, pillow cases, and blankets accounted for 13 per cent of total department store sales during January. Because of the acute shortage of such merchandise last year, "white sales" accounted for only 7½ per cent of the month's total dollar volume. Trade sources indicate that sales in this department last month were substantially greater than in January 1945, and accounted for almost the same percentage of total sales as before the war. Among the other departments housewares, floor coverings, and major household appliances continued to show substantially greater-than-average sales gains during January. The increases reported for sales of men's clothing and furnishings have been smaller in recent months because of the limited supply of merchandise. Hosiery and lingerie sales continue below the year earlier level, reflecting the acute stock shortages.

The dollar volume of department store stocks at the close of December was 5 per cent greater than a year earlier, but in terms of physical volume stocks were lower. During the first six months of 1945 the seasonally adjusted stock index increased about 25 per cent, but the trend was reversed in July and at the close of the year virtually the entire increase had been canceled.

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

Locality	Net sales		Stocks on hand Dec. 31, 1945
	Dec. 1945	Jan. through Dec. 1945	
Department stores, Second District	+14	+13	+ 5
New York City	+16	+14	+ 5
Northern New Jersey	+12	+13	+10
Newark	+13	+14	+11
Westchester and Fairfield Counties	+ 9	+ 8	+ 9
Bridgeport	+ 6	+ 4	+11
Lower Hudson River Valley	+11	+14	+ 3
Poughkeepsie	+10	+14	+ 2
Upper Hudson River Valley	+12	+15	+10
Albany	+19	+23	+18
Schenectady	+ 6	+ 8	+ 2
Central New York State	+13	+11	- 5
Mohawk River Valley	+ 9	+ 5	- 5
Utica	+ 7	+ 4	- 3
Syracuse	+15	+14	- 5
Northern New York State	+23	+17	- 1
Southern New York State	+15	+13	- 4
Binghamton	+17	+15	- 2
Elmira	+11	+ 9	+ 3
Western New York State	+12	+ 9	+ 3
Buffalo	+ 8	+ 8	+ 8
Niagara Falls	+10	+ 8	+ 9
Rochester	+18	+12	- 2
Apparel stores (chiefly New York City)	+13	+21	+ 6

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

Item	1944	1945		
	Dec.	Oct.	Nov.	Dec.
Sales (average daily), unadjusted	269 _r	196 _r	235	307
Sales (average daily), seasonally adjusted	157 _r	172	182 _r	181
Stocks, unadjusted	129	175	173	136
Stocks, seasonally adjusted	142 _r	155	152	150

r Revised.

FEDERAL RESERVE BANK OF NEW YORK

MONTHLY REVIEW, FEBRUARY 1946

General Business and Financial Conditions

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

INDUSTRIAL output declined slightly in December and, with new strikes occurring within the past two weeks, a large decrease is indicated in January. The value of retail trade in December and the early part of January was maintained at record levels, after allowing for seasonal changes.

INDUSTRIAL PRODUCTION

The Board's seasonally adjusted index of industrial production decreased from 168 per cent of the 1935-39 average in November to 164 in December. The decline was due mainly to the stoppage of work at leading automobile plants and to holiday influences on activity in the steel, textile, paper, and mining industries.

Output of most types of producers' equipment and of many consumer durable goods showed further gains in December and increases also occurred in output of construction materials. These gains, however, were more than offset by suspension of operations at automobile plants and total durable goods output declined by three per cent, reflecting decreases not only in output of automobiles and parts but also of such other metal products as diesel locomotives and refrigerators.

Steel production declined slightly in December owing to most plants being shut down for two days in observance of the Christmas holiday. In the first three weeks of the month steel production was above the November rate and output was resumed at a high level during the first three weeks of January. In the following week, however, steel output dropped to five per cent of capacity as negotiations for a new wage contract collapsed.

Output of nondurable goods in December was maintained at about the level of the preceding month. Meat production continued at a high level in December and the early part of January. Activity at most meat-packing plants was suspended in the latter part of January owing to an industrial dispute. Production of cigarettes declined considerably, reflecting an accumulation of stocks resulting from increased output for civilian use since the end of the war. Output of tires for civilians increased substantially in November and December and rationing was eliminated on January 1. Cotton consumption declined in December, reflecting holiday influences.

Coal production in December was about 10 per cent below the November level because of reduced operations at mines around the Christmas holiday. A high rate of output was maintained in both bituminous and anthracite coal mines in the early part of January. Output of crude petroleum and of metals was generally maintained in December.

Awards for private construction, especially contracts for manufacturing and commercial buildings and those for residential building for sale or rent, continued to advance sharply in November and the early part of December.

EMPLOYMENT

Employment in most lines of activity continued to rise in December, after allowing for seasonal changes. Gains in employment in trade, transportation, construction, and most durable and nondurable goods industries were offset in part by the loss in employment due to the automobile strike.

DISTRIBUTION

Sales at department stores were about 10 per cent larger in December than a year ago, and in the first three weeks of January sales continued to show about the same increase above the relatively high level in the corresponding period of 1945. Most other types of stores in recent months have shown even larger increases in sales than department stores, and the total value of retail trade has been running 12 to 15 per cent above year-ago levels.

COMMODITY PRICES

Prices of most farm products and foods were maintained at advanced levels in December and the early part of January. Ceiling prices were reestablished for citrus fruits; egg prices also declined, reflecting seasonal increases in supplies.

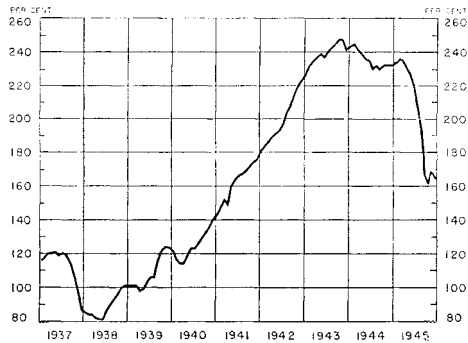
Price ceilings for furniture, printing machinery, furnaces, and various other manufactured products were advanced and there were indications that the general level of steel prices would be raised.

SECURITY MARKETS

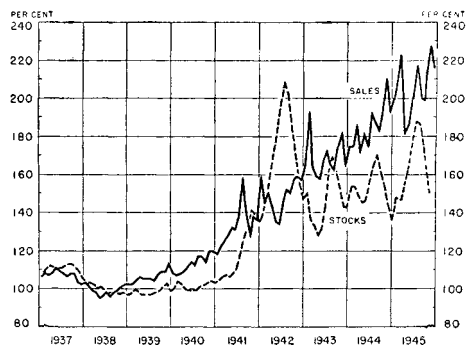
Prices of Treasury bonds have risen sharply in recent weeks with the result that yields are now at the lowest levels on record. Stock market prices rose sharply in January to the highest levels for a number of stocks since 1930. Effective January 21, the Board of Governors of the Federal Reserve System raised margin requirements for listed stocks to 100 per cent.

BANK CREDIT

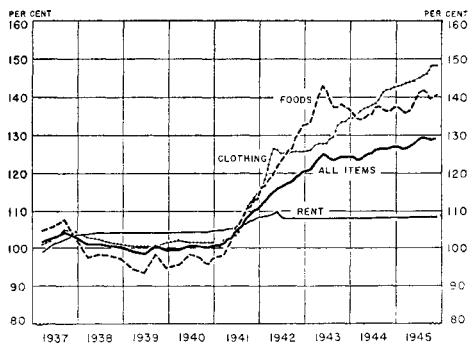
Return flow of currency of almost 700 million dollars, following the Christmas rise, together with a reduction of Treasury deposits at Federal Reserve Banks early in January, provided member banks with substantial amounts of reserve funds. At the same time, bank loans made for purchasing and carrying Government securities during the Victory Loan drive were reduced. Member banks continued to increase their holdings of Government securities, while the Federal Reserve Banks reduced their portfolio. Bank deposits have shown little change since the sharp decline in demand deposits adjusted and the increase in U. S. Government deposits during the Victory Loan drive.



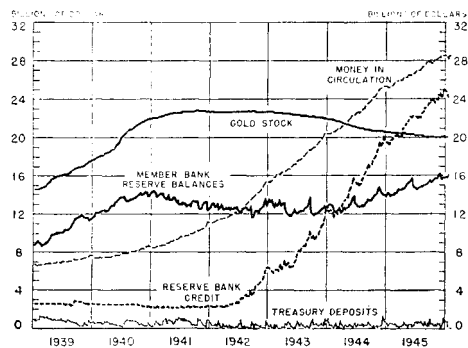
Index of Physical Volume of Industrial Production, Adjusted for Seasonal Variation (1935-39 average=100 per cent)



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



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



Member Bank Reserves and Related Items (Latest figures are for January 16)