MONTHLY REVIEW

Of Credit and Business Conditions

FEDERAL RESERVE BANK OF NEW YORK

APRIL 1946 No. 4

MONEY MARKET IN MARCH

The New York money market was rather tight during a good part of March, chiefly because of the effects of Treasury operations in connection with the retirement of substantial amounts of Treasury securities on March 1 and March 15, as well as quarterly income tax collections. The debt retirements were accompanied by large-scale investment operations by the banks and their customers, which involved substantial purchases of securities from the Federal Reserve System Open Market Account, and consequent losses of reserves to the banks. Income tax payments ran substantially higher than had been expected, and resulted in unusually heavy accumulations of funds in Treasury balances with the Reserve Banks toward the end of the month. Large-scale shifts of funds from New York to other parts of the country occurred, especially in the latter half of the month, partly in connection with Treasury security redemptions and partly in connection with tax payments. The net effect of all these transactions was to necessitate heavy recourse by member banks to Federal Reserve credit, largely through sales of Treasury bills to, and borrowings from, the Reserve Banks.

The redemption of about 1 billion of an issue of somewhat over 4 billion dollars of Treasury certificates maturing on March 1 was accomplished with little effect on the banking system as a whole. Treasury disbursements in connection with the redemption and for other purposes exceeded receipts by about 250 million dollars, and helped to compensate for some unevenness in the impact on individual banks of the disbursements and Treasury withdrawals from War Loan deposit accounts. In New York City, however, the money market position was rather tight owing largely to substantial purchases of Treasury certificates from the Reserve System, partly by the New York City banks and partly by out-of-town banks and customers who were undertaking to replace their redeemed securities through purchases of other securities. As a result, the New York City banks found it necessary to sell Treasury bills to the Reserve Banks and to increase their borrowings moderately in the first week of the month.

In the following week there were heavy purchases of the longer term outstanding Treasury certificates by the New York City banks and, to some extent, by their customers in anticipation of the redemption of maturing Treasury notes and bonds on March 15. As the certificates were supplied largely from Federal Reserve holdings, payments for them involved a heavy drain on the reserves of the New York banks. In order to replace the lost reserves, the banks borrowed heavily from the Reserve Bank, and sold considerable amounts of short term Treasury securities in the market. The securities sold, however, were largely absorbed by dealers who had to borrow from the banks to carry them, so that the sales did not accomplish the purpose of supplying the banks (in the aggregate) with additional reserves. Borrowings by the New York City banks in this week rose above 500 million dollars, the largest amount since last June.

Although the redemption of approximately 1,800 million dollars of Treasury notes and bonds on and immediately after March 15 was financed to a considerable extent by withdrawals of Government deposits from War Loan accounts in banks, it was met in part by the use of funds previously accumulated in Treasury balances with the Reserve Banks, and consequently provided the banks with a sizable amount of additional reserves. As a large proportion of the maturing securities were held by the New York banks, either for their own account or for customers (including correspondent banks) the New York banks had the benefit of net payments from the Treasury amounting to approximately 500 million dollars. Part of this gain, however, was offset by a heavy outflow of funds to other parts of the country where banks sustained net losses of reserves through withdrawals of Treasury deposits and tax collections. Some New York City banks were able to repay a substantial part of their indebtedness at the Reserve Bank, while others, as well as banks in other parts of the country, found it necessary to sell Treasury bills to the Reserve Banks in order to adjust their reserve positions. New York banks also sold large amounts of short term certificates and notes in the market, but considerable amounts of the certificates were acquired by dealers who carried them on funds borrowed from the banks, so that no gain of reserves to the New York banks as a group resulted. Some of the securities were acquired by the Reserve Banks, and to that extent provided the banks with reserve funds.

In the latter part of the month there was again a heavy drain on the banks' reserves which resulted chiefly from income tax collections. These collections ran well above earlier estimates and resulted in an increase in the Treasury balances with the Reserve Banks to nearly 1,400 million dollars on March 27. The resulting loss of funds necessitated further heavy sales by member banks of short term Government securities, including Treasury bills and short term certificates and notes, some of which again were absorbed by dealers, while others were absorbed by the Reserve Banks. Holdings of Treasury bills by the Reserve System rose to higher levels than ever before, while the holdings of commercial banks were correspondingly reduced. In the case of the reporting New York City banks, Treasury bill holdings on March 27 fell to the lowest level since 1939.

In view of the extraordinary accumulation of Treasury deposits in the Reserve Banks, however, it became possible for the Treasury, in making plans for the redemption of approximately 2 billion dollars of Treasury certificates on April 1, to reduce the amount of its withdrawal of funds from War Loan deposit accounts in the commercial banks to a little over 1 billion dollars. It is to be expected, therefore, that the Treasury will make net disbursements of more than 1 billion dollars on, or shortly after April 1, which should have the effect of easing the reserve position of the commercial banks considerably.

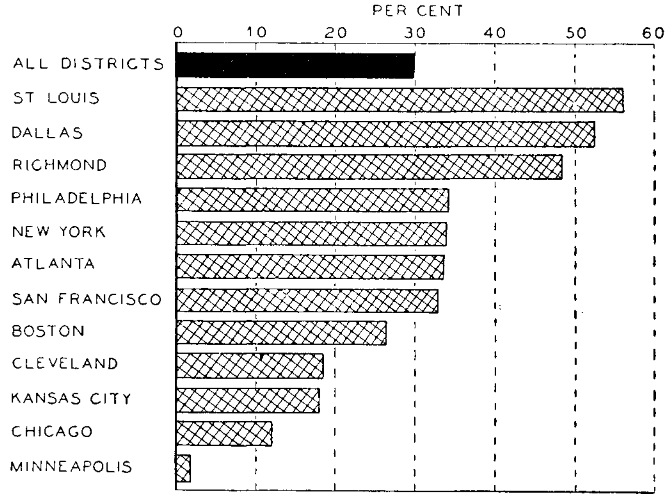
Member Bank Credit

Loans to brokers and dealers on Government securities by New York City banks increased substantially during March chiefly as a result of the heavy sales of Treasury certificates of early maturities by banks and others, a large part of which were absorbed by the dealers. Presumably these loans will be largely repaid on, or soon after April 1, when the dealers will receive payment from the Treasury for that part of their holdings which is redeemed, and will sell the new certificates received in exchange for the remainder.

Largely as a result of the two redemption operations in March, Government security holdings of the weekly reporting member banks in 101 cities declined about 2 billion dollars in the three weeks ended March 20. Although the total holdings of the weekly reporting banks in New York City are roughly half those of the institutions reporting from 100 other centers, the net reduction was the same for each group of banks, a billion dollars, reflecting the pressure on New York City banks' reserves, largely as a result of the outflow of funds to other parts of the country.

The expansion of commercial, industrial, and agricultural loans continued in March and lifted the total for all reporting member banks to a new peak since this series was first compiled in May 1937. In fact, the "commercial" loans of New York City banks appear to be at the highest level since the peak was reached in 1920 (precisely comparable records are not available). The total for banks in 101 cities on March 20 was 7,491 million dollars, a gain of 1,723 million or 30 per cent over the low point in May of last year and of 1,336 million or 22 per cent over the corresponding week of 1945. At this

Percentage Increase in Business Loans of Weekly Reporting Banks, by Districts (May 30, 1945 to March 13, 1946)



time last year, business loans were contracting, whereas this year there has been a contraseasonal rise since the beginning of the year. It appears, furthermore, that the expansion of business borrowing has been fairly widespread as all but five Federal Reserve Districts have shown gains of more than 30 per cent since last May, as illustrated in the accompanying chart, based on data of weekly reporting member banks. The increase was largest relatively in the St. Louis, Dallas, and Richmond Districts, where the gains ranged around 48 per cent to more than 55 per cent. The next four districts, Philadelphia, New York, Atlanta, and San Francisco, averaged close to 35 per cent. In Minneapolis, the slight gain may be attributable to seasonal factors affecting farm loans. In dollar amount, the New York District accounted for approximately 45 per cent of the increase for all the districts.

Although large term loans to business have been an important factor in the upswing in commercial loans, the extension of smaller short term loans on a wider scale appears to be assuming greater significance at least in New York City. Reports from a dozen large City banks on new loans made in the first 15 days of March indicated that an unusually large number of short term loans (including renewals) were granted, amounting in the aggregate to 216 million dollars, the largest amount shown in any quarterly report since the beginning of 1939 (when the series was first compiled). The number of loans extended was considerably greater than in either the first half of December or the first half of March 1945. On the other hand, the long term loans (those maturing in more than a year) made in the first half of March of this year amounted to only 61 million dollars, the smallest total since September 1943. The New York banks' experience may not be typical, however, as the latest available information for banks in principal cities in other parts of the country (for December 1-15, 1945) showed term loans at new high levels, while short term credits granted were not as large as in some earlier periods.

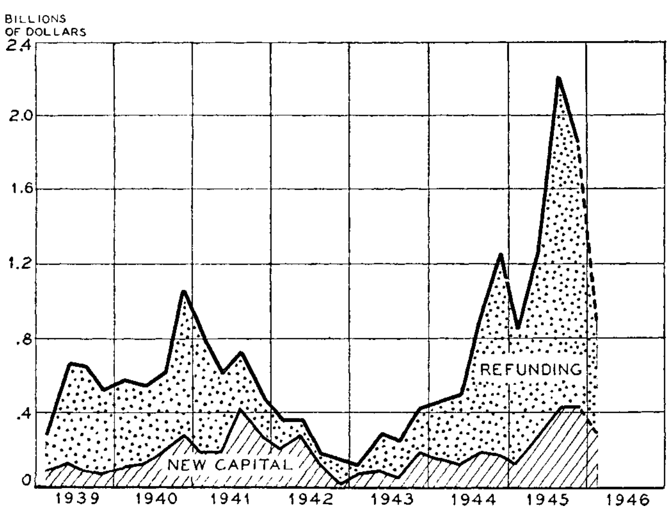
NEW CORPORATE FINANCING

New corporate financing in the first quarter of 1946 amounted to about one billion dollars (partly estimated), compared with approximately 860 million in the corresponding quarter of 1945. A decline in new offerings for refunding purposes was more than offset by an expansion of "new money" flotations which, at 290 million dollars in the first three months of this year, were more than double the 132 million of new capital issues placed on the market in the same period of 1945. Refunding issues amounted to 608 in the first quarter of 1946, against 729 million dollars a year previous.

Both refunding and new capital securities offered in the first three months of this year were well below the totals for the last quarter of 1945; the decline for refundings was relatively much greater than for new capital issues, but was less than had been expected in view of the huge volume of refinancing operations crowded into the latter part of last year. Approximately three fourths of the securities floated in the past three months to raise new capital were issues of industrial concerns (all concerns other than railroads, public utilities, and financial companies), but that was a somewhat smaller proportion than in the previous two years. On the other hand, railroad and utility securities accounted for about two thirds of refunding issues, as against three fourths in recent years.

For the most part, the new securities issued during the first quarter of the year were favorably received by investors, although here and there, owing to the fact that an issue may have been considered "over-priced" in relation to outstanding securities of comparable grade and maturity, the absorption by investors proceeded rather slowly. Much discussion and some uncertainty as to the future course of interest rates may also have been a factor in the rather slow distribution of a few long term issues in recent weeks. A falling off in new stock flotations in the latter part of the quarter probably reflected the sizable decline in stock prices in February.

Domestic Corporate Security Issues for Refunding and for New Capital, Quarterly Totals*



* First quarter of 1946 partly estimated.
Source: Commercial and Financial Chronicle.

Most of the direct wartime influences on the corporate capital market were ended with the completion of the Treasury's war financing program successfully concluded with the Victory Loan, the relaxation of production controls after V-J Day, and the removal of the excess profits tax effective January 1, 1946. Some of the changed conditions under which the new issue market has been operating since the beginning of the year and their effects upon the volume and types of securities likely to be offered are set forth below.

1. Wartime restraints on the flotation of securities for the purpose of expanding plant, equipment, and working capital have been removed. Unlike World War I, the Government placed no direct restrictions on the issuance of corporate securities in World War II, but the Government's policy of financing war plant expansion and the working capital requirements of war producers with its own funds or through the guarantee of bank credits to war contractors, together with restrictions on the availability of equipment and shortages of raw materials for nonwar industries was equally effective in limiting the volume of corporation financing through new capital issues. The removal of these indirect restraints has cleared the way for an increased volume of new capital investments.

2. The completion of the Treasury's war financing program which employed the mechanism of War Loan drives, during which corporation security financing was largely suspended, signalized the restoration of more even conditions in the corporate new issue market, as corporate flotations need no longer be concentrated in between-drive months. Consequently, the peaks and valleys in the monthly totals of new issues since the middle of 1944 may well be replaced by more moderate month-to-month fluctuations.

3. The elimination of the excess profits tax has removed a powerful incentive for issuing refunding securities, although it remains to some extent for those corporations with fiscal years other than calendar years, since excess profits taxes are still payable on that portion of net income falling within the calendar year 1945.

While the heavy concentration of refunding operations in 1945 and the subsequent weakening of the "tax savings" factor raised some question as to the prospects for the continuation of such operations on a large scale, the further decline in yields on long term securities early this year gave new life to refinancing activities. The margin between interest on new securities and on the refunded issues had been narrowing gradually, thus making it less profitable to refund outstanding securities. This is shown in the accompanying table, which gives for each quarter beginning in 1945 the average coupon rate on new bond issues of 10 million dollars or more and on the securities which were retired out of the proceeds of the sale of new issues. (Coupon rates only were used because of the lack of complete information on offering prices, particularly for privately placed new issues, but it is believed that this does not materially affect the comparisons.) The renewed decline in market yields on outstanding securities in the opening months of 1946, however, tended to extend the period in which worth-while savings could be obtained by replacing outstanding securities with new ones. In fact, the spread on actual refundings widened somewhat in the first quarter of this year, but that was largely because one sizable issue with a wide margin affected the average.

Interest Savings on Refunding Issues*
(Weighted averages of coupon rates, in per cent per annum)

Quarter	New issues	Refunded issues	Interest savings
1945			
First	3.26	4.44	1.18
Second	2.97	4.03	1.06
Third	3.05	3.75	0.70
Fourth	2.93	3.65	0.72
1946			
First	2.72	3.72	1.00

* New fixed interest issues of 10 million dollars and over.

In a number of cases, recently issued securities have been replaced with new securities bearing still lower coupon rates, the repeated refinancing operations being made possible by the continued decline in long term interest rates. Among the most recent examples of this process were four issues of two railroads aggregating 207 million dollars, which were placed on the market in the first quarter of 1946, approximately six months after the securities they were to replace were first offered to the public. Thus, it would appear that the volume of corporation refunding operations in coming months will depend mainly upon the course of interest rates in the market.

CHANGING PATTERN OF DEBT IN THE UNITED STATES

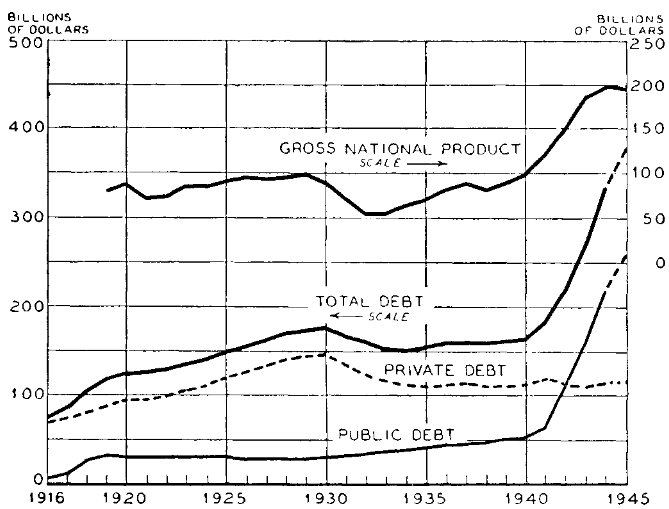
The pattern of indebtedness in the United States has been vastly altered as a consequence of the war. The Treasury's wartime financial requirements were so large that they lifted the Federal Government's net debt[1] to a level far surpassing the aggregate net indebtedness of all other groups including State and municipal governments as well as private debtors. It is estimated that at the end of 1945 the Federal net debt comprised more than 65 per cent of the aggregate national indebtedness in contrast to 22 per cent at the end of 1940. Private indebtedness fell from 68 per cent in 1940 to a little over 30 per cent last year, and the net debt of States and local governments from 10 to less than 4 per cent.

Total indebtedness in the United States, both public and private, exceeded 350 billion dollars in 1945, at least twice the prewar peak reached in 1930. This substantial increase was accompanied by an equally marked decline in interest rates, as a consequence of the abundance of funds resulting from the huge inflow of gold between 1934 and 1941, the great expansion of Federal Reserve credit during the war, and the vast monetary structure which was built upon these primary bases of bank credit. Thus, although the aggregate volume of debt more than doubled between 1930 and 1945, average interest rates fell by about half, so that, even allowing for old debt that has not been refunded at lower rates, the actual interest burden apparently has not increased very much in actual amount, and has diminished in relation to the gross national product. The Federal Government's interest payments were between seven and eight times larger in 1945 than in 1930, but interest payable on private debt had been reduced substantially.

Changes in the total net debt and its major components over the past 30 years are shown in the accompanying chart along with the estimated gross national product. In general, as illustrated in the chart, private and public debt have shown little tendency to move together, and at times have moved in opposite directions. However, debts of the States and municipalities, included in the public debt totals, have varied more closely with changes in private debt, so that it has been the Federal debt primarily which has fluctuated independently of private debt. During both World Wars, of course, the total outstanding obligations of the Federal Government rose much more rapidly than private debt. But in peacetime, the Federal debt first declined gradually during the prosperous business conditions of the twenties while the expansion of the private debt gained momentum, and then grew during the depression of the thirties as a result of Government expenditures in connection with unemployment relief and financial assistance to business, agriculture, and home owners, while private borrowers paid off or defaulted on many of their obligations.

Prior to America's participation in World War I, the net private indebtedness of the nation accounted for 92 per cent

Gross National Product and Net Indebtedness*



* Total debt exclusive of duplicating debt and corporate short term debt other than notes and accounts payable; 1945 estimated by the Federal Reserve Bank of New York.

Source: U. S. Department of Commerce and Board of Governors of the Federal Reserve System.

[1] Net after deducting such items as interagency debt, Government securities held by trust accounts, and Government loans to private enterprises and individuals.

of the total net debt. This proportion declined during that war and then rose during the twenties to 83 per cent at the end of 1930. Thereafter a steady decline ensued until, in 1945, private indebtedness came to only slightly more than 30 per cent of all debts. In dollar terms, aggregate debt of private individuals and business enterprises rose from 69 billion dollars in 1916 to 146 billion in 1930, and fell to around 115 billion (preliminary) last year.

Most of the expansion of private debt during the first World War (1916-19) came in the short term category, chiefly bank loans to nonbank investors on Government securities and to war contractors for working capital purposes. But the major factor in the subsequent expansion during the period of high level industrial activity and construction and of rising property values in the twenties was the increase in long term debt, which rose 88 per cent between 1919 and 1930, compared with a 40 per cent growth in short term debt. (The peak for the latter came in 1929 when it was 50 per cent higher than the 1919 figure.) Reflecting the boom in construction, as well as rising real estate values and building costs, urban mortgage debts (of noncorporate borrowers) increased over 215 per cent between 1919 and 1930. Long term debt of business corporations rose more slowly (by about two thirds), as corporate business tended to resort increasingly to equity financing in this period.

Long term borrowings of farmers traced a somewhat different pattern. The bulk of the expansion of farm real estate debt occurred in 1919 and 1920 when agricultural prices were at their highest. A slower rise continued through 1922 when total farm real estate debt reached 10.8 billion dollars, a gain of 3.7 billion dollars over the 1918 level, and then gradually receded each year with but few exceptions through 1945.

Increased financing through the capital markets by corporations, ploughing back undistributed profits into business operations, and increased efficiency in transportation and inventory control limited the expansion of short term business indebtedness between 1919 and 1930. Substantial growth of indebtedness of security brokers and dealers and their customers and of consumers were the principal factors in the rise in short term debt in this period.

Both short and long term private debt fell sharply between 1930 and 1933. The liquidation of the former was completed in 1933, after which there was an irregular rise through 1941, chiefly as a result of expanding consumer debt; the decrease in long term debt, however, continued more slowly through 1936. In the six year period, 1931-36, corporate and farm mortgage debt fell 18 per cent and urban mortgage debt 22 per cent. A minor increase in corporate long term debt in the next few years was in part attributable to the growth of term loans to business by banks.

In the first three years of World War II, urban mortgage and short term debt rose markedly, while corporate long term debt and farm mortgage loans continued to decline. After 1941 all major forms of private debt fell as production controls and the other restrictions imposed by the Government with the American entry into the war and the Treasury's direct financing of war plants effectively curtailed private plant expansion and nonessential residential buildings, and as high corporate and agricultural incomes enabled substantial repayment of funded debt. Short term loans fell as nonessential businesses curtailed operations and consumer borrowing was reduced for lack of durable goods and because of restrictions on consumer credit. In 1944 and 1945, however, a combination of increased loans for purchasing Government securities and an upturn in consumer debt (principally in charge sales) and in short term business borrowing brought some expansion in short term indebtedness.

In contrast to the fluctuations in net private debt, the net Federal debt expanded from the almost nominal amount of 1.2 billion dollars at the end of 1916 to 25.5 billion in 1919, declined to 14.8 billion in 1930, grew to 36.9 billion in 1940, and then rose rapidly to about 250 billion dollars at the end of 1945. In most years since 1930 a larger portion of the nation's money savings has been absorbed by the Federal Government for public expenditure than by business enterprise or private individuals for capital expenditures or consumption purposes.

State and local government indebtedness, which amounted to 4.6 billion dollars in 1916, rose slowly during the first war and then more rapidly thereafter to a peak of 16.8 billion in 1933. This growth came in response to sizable public works programs, necessitated first by some deferment of needed projects during the first war, and then by such interrelated factors as the growth of population, the more widespread use of the automobile, the development of new suburban areas, and the housing boom, involving extensive road building, street paving, sanitation, hospital, and educational projects. In the early depression years, 1931-33, State and municipal debts continued to rise as a consequence of heavy disbursements for relief. In subsequent peacetime years, however, State and local indebtedness declined irregularly as the Federal Government took over most of the relief burden, and then more rapidly during the second war as public work projects were deferred because of the all-out war production effort. The increased revenues of regional and local governmental units enabled them to reduce their outstanding debt by 3 billion dollars between 1941 and 1945 to a total of around 13 billion last year.

As shown in the accompanying chart, the gross national product (the total value of goods and services produced) and the total debt of the nation have tended to fluctuate in the same direction. During the war, however, the growth of the gross national product fell considerably short of the increase in the debt, owing to the growth in idle savings which accompanied the war financing. In the twenties also, when the growth of private debt was the major factor in the increase in the total, the gross national product rose less rapidly than the debt, but the discrepancy was much narrower. It then reflected largely an increase in certain types of indebtedness such as bank loans for purchasing and carrying securities and stock brokers' loans to their customers trading on margin, which made at best an indirect contribution toward increasing the gross national product. Some portion of the increase in debt in that period probably represented mainly a revaluation of capital assets on the basis of a higher general price level than before the war. A substantial growth of equity financing was a limiting factor in the growth of private debt in this period. On the whole, however, it would seem reasonable to expect a relatively rapid growth in private debt and a decline in public debt in years of rising prosperity (except, of course, in wartime), and the reverse movements in depression years. This tendency is already apparent in the current postwar period, although the reduction in public debt thus far represents only the use of some of the surplus funds raised in the Victory Loan.

SURVEY OF OWNERSHIP OF BUSINESS AND PERSONAL DEMAND DEPOSITS, JANUARY 1946

The January survey of the ownership of business and personal demand deposits in all commercial banks in the Second Federal Reserve District presents an opportunity to evaluate the shifts which have occurred in various ownership categories since the termination of the war. The outstanding development between July 1945 and January 1946 was a decline of nearly a billion dollars in balances of manufacturing and mining concerns, following continuous increases since early in 1944. In contrast, there were further increases of about 400 million dollars in retail and wholesale trade accounts and 350 million dollars in personal deposits, both of which were much greater than in the previous six month period. Larger increases than during the previous period were also recorded in aggregate accounts of other nonfinancial businesses except public utilities, and of financial businesses such as investment, loan, insurance agency, and real estate concerns, as well as nonprofit organizations and foreign accounts. Declines during the past six months in place of gains during the period January-July 1945, were recorded for accounts of public utilities, insurance companies, and trust funds of banks. Figures in the accompanying table show that total demand deposits of individuals, partnerships, and corporations in all commercial banks in the Second Federal Reserve District are estimated at 19,816 million dollars as of January 1946, only 72 million, or 0.4 per cent, higher than in July 1945.

The current survey, which is the seventh of a series, includes reports from 126 member banks which have about three fourths of the total business and personal demand deposits of all commercial banks in the District. The reporting banks classified in ownership groups about 68 per cent of their business and personal demand deposits; the accounts classified were the larger ones with the minimum size classified varying according to the size of the bank.

The 13 per cent decline in balances of manufacturing and mining concerns during the half year ended January 1946 carried the deposits of that group to a point lower than any heretofore shown in these surveys which go back to the spring of 1943, although the current level undoubtedly remains much higher than that prevailing before the war. The shrinkage in these deposits may have been due to expenditures for reconversion of plants to peacetime production, together with payments for labor, materials, and other expenses incident to accumulations of goods in process of manufacture. The large rise in balances of retail and wholesale trade concerns partly reflects seasonal trends such as the peak sales of the holiday period and consequent year-end depletion of inventories, particularly for retailers. The continued large increase in personal accounts during the past six months, despite a decline in factory payrolls, suggests that aggregate individual incomes have been relatively well maintained and that many individuals were still showing a preference for cash over investments in Government or other securities.

During the year ended January 1946, the over-all rise in business and personal demand deposits in this District is estimated at 1,190 million dollars, or 6.4 per cent, compared with 1,856 million, or 10.7 per cent, between February 1944 and January 1945. The rate of accumulation in personal accounts slowed down only slightly during the past year, amounting to 14.4 per cent compared with 15.0 per cent in the previous period. Total financial accounts, accounts of nonprofit organizations, and accounts of miscellaneous nonfinancial businesses also showed only slightly slower rates of increase. The growth in wholesale and retail trade deposits, however, slowed considerably between the two periods, to 19.6 per cent during the last year in contrast to 31.4 per cent during the preceding eleven months.

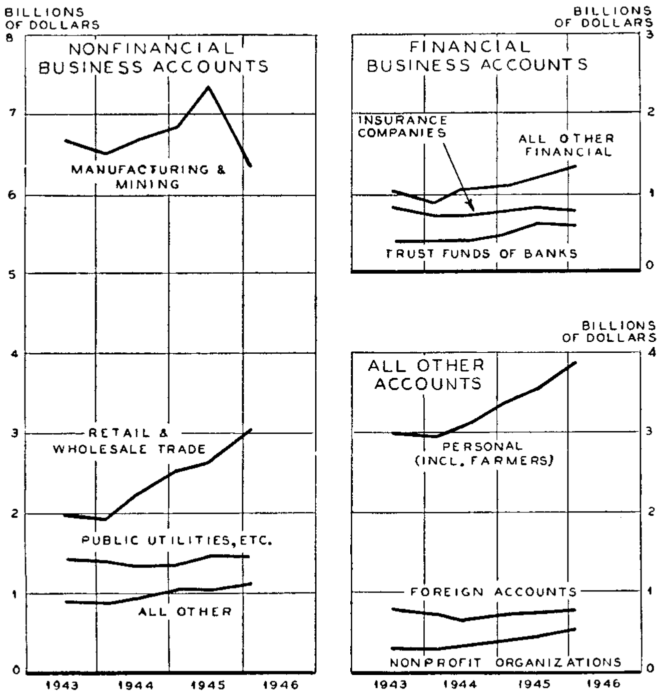
The estimated changes in business and personal demand deposits of all commercial banks in the District since July

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

Type of owner	Millions of dollars		Percentage change	
	Dollar balance Jan. 1946	Dollar change July 1945 to Jan. 1946	July 1945 to Jan. 1946	Jan. 1945 to Jan. 1946
Manufacturing and mining	6,346	—966	—13.2	— 7.2
Public utilities, transportation, and communications	1,454	— 16	— 1.1	+ 6.5
Retail and wholesale trade and dealers in commodities	3,017	+397	+15.2	+19.6
All other nonfinancial business, including construction and services	1,142	+106	+10.2	+11.4
Total nonfinancial	11,959	—479	— 3.9	+ 1.8
Insurance companies	749	— 64	— 7.9	— 5.2
Trust funds of banks	586	— 22	— 3.6	+19.8
All other financial business*	1,360	+156	+13.0	+25.3
Total financial	2,695	+ 70	+ 2.7	+14.0
Nonprofit organizations	516	+ 80	+18.3	+24.6
Personal (including farmers)	3,879	+355	+10.1	+14.4
Foreign accounts	767	+ 46	+ 6.4	+ 8.9
Total demand deposits of individuals, partnerships, and corporations	19,816	+ 72	+ 0.4	+ 6.4

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

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.

1943 are shown for various ownership groups in the accompanying chart. The total increase in such deposits during the entire two and one-half year period amounts to nearly 2,400 million dollars, or 14 per cent. The bulk of the increase was in retail and wholesale accounts which rose more than one billion dollars, or 52 per cent, and personal accounts which increased about 900 million, or 30 per cent. Large percentage gains also were recorded for nonprofit organizations, trust funds of banks, and the "all other" group of financial businesses which includes investment, loan, insurance agency, and real estate businesses. Manufacturing and mining company balances showed a net decline of 5 per cent between July 1943 and January 1946, reflecting the sharp reduction during the past six months, and net declines also were recorded in insurance company and foreign accounts.

DEPARTMENT STORE TRADE

Pre-Easter buying began unusually early this year because of the exceptionally warm weather during March. This factor, together with the continued demand for homefurnishings and men's wear, resulted in another sharp gain in the seasonally adjusted sales index. Since the close of 1945 this indicator of trade activity for the Second District has established a new record each month. The indicated rise of 15 per cent in this index between February and March extended the gain for the first three months of the year to 30 per cent, the largest increase on record for any such short period. The March index is 25 per cent above that of March 1945 which was the peak month of last year.[1]

The New York District is approaching its prewar position in the total United States department store sales. During the war period this District experienced the smallest increase in dollar sales volume recorded for any of the twelve districts, and its share of the United States total dropped from 16 per cent to 13 per cent. With the shift to a peacetime economy, however, it is currently reporting one of the largest year-to-year gains, although the upward trend in department store sales has been accelerated throughout the country since the end of the war.

The dollar volume of department store sales in New York City accounts for about one half of the District's total, while Newark, the second largest city, represents a little under 10 per cent. The small increases in these cities accounted for the lag in total Second District sales during the early years of the war period.[2] Although sales in New York City moved upward

[1] The adjusted index makes allowance for the shifting date of Easter as well as for variations in the number of shopping days. This year Easter comes three weeks later than in 1945, and the calendar month of March has one less shopping day. The actual total sales for March were about 15 per cent higher than in the corresponding month of last year.

[2] Seasonally adjusted indexes of department store sales in six cities of this District have recently been completed. Tabulations of the data from 1925 to date for the six cities shown in the chart are available upon request.

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

Locality	Net sales		Stocks on hand
	Feb. 1946	Jan. through Feb. 1946	Feb. 28, 1946
Department stores, Second District...	+27	+27	+ 9
New York City	+27	+26	+ 9
Northern New Jersey	+29	+28	+10
Newark	+27	+27	+11
Westchester and Fairfield Counties	+28	+21	+15
Bridgeport	+19	+14	+16
Lower Hudson River Valley	+26	+29	+10
Poughkeepsie	+26	+28	+ 4
Upper Hudson River Valley	+36	+35	+10
Albany	+65	+63	+14
Schenectady	+11	+10	+ 6
Central New York State	+26	+28	— 1
Mohawk River Valley	+22	+20	+ 1
Utica	+18	+15	— 3
Syracuse	+27	+32	— 2
Northern New York State	+28	+37	—
Southern New York State	+24	+23	+ 6
Binghamton	+26	+26	+ 4
Elmira	+11	+13	+10
Western New York State	+24	+25	+ 8
Buffalo	+26	+29	+10
Niagara Falls	+ 9	+ 8	+ 4
Rochester	+23	+22	+12
Apparel stores (chiefly New York City)	+24	+24	+ 6

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

Item	1945		1946	
	Feb.	Dec.	Jan.	Feb.
Sales (average daily), unadjusted	137	307	155	174
Sales (average daily), seasonally adjusted	165r	179r	194r	210
Stocks, unadjusted	144	136	144	156
Stocks, seasonally adjusted	153	150	162	166

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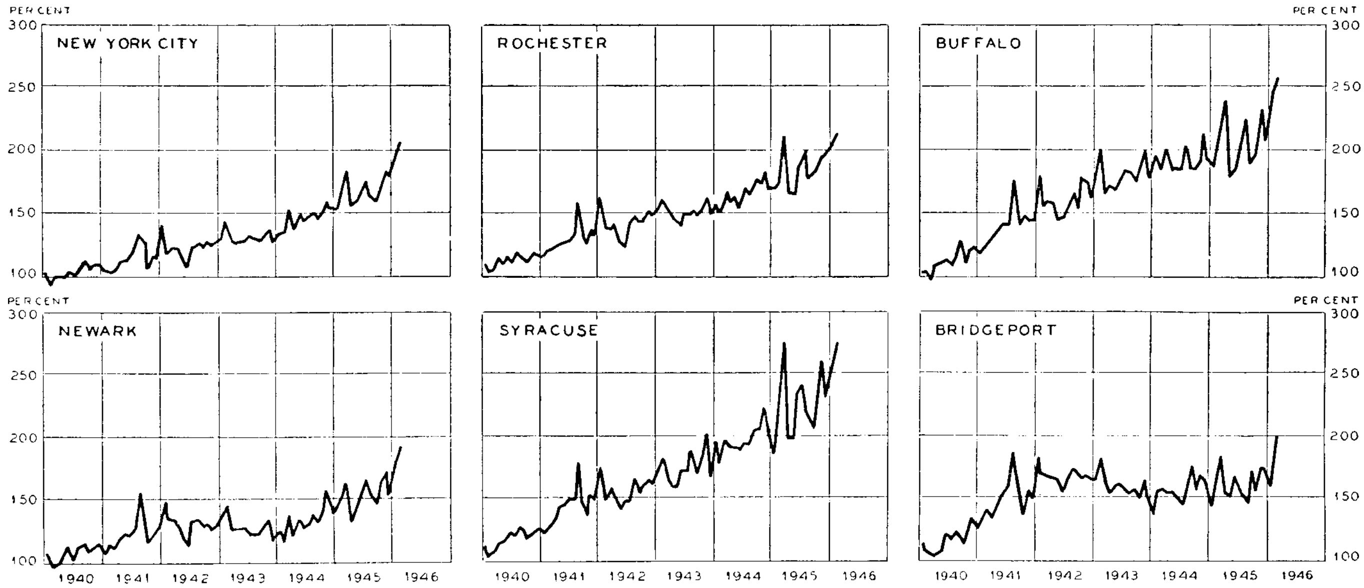
Indexes of Department Store Sales in Selected Cities in the Second Federal Reserve District, 1940-46
(Adjusted for seasonal variation, 1935-39 average=100 per cent)



Source: Federal Reserve Bank of New York.

throughout the period, but rather gradually until 1944, it will be noted that sales in Newark leveled off in the spring of 1942 and did not turn upward again until early 1944. Currently, however, the large gains in these cities are the principal factor in the better-than-average increases reported for this District.

In contrast, Bridgeport, Buffalo, and Syracuse department store sales moved sharply upward until the spring of 1942, at rates exceeding slightly that for the United States as a whole, but, as the charts indicate, their records subsequently have been less favorable. In Bridgeport sales declined irregularly in both 1943 and 1944, and although they increased moderately in 1945, this city currently is showing relatively small increases. Sales in Buffalo continued upward after 1942, but the rate of gain began to taper off in 1944 and the increases since then have been below average. In Syracuse year-to-year gains have continued fairly constant, and this city now shows the largest increase over the prewar level of any city in the District. Sales in Rochester have also moved upward at a fairly constant rate, although the total gain over the period has been considerably less than that for Syracuse. The last plotting shown on the chart is for February; indexes for all the cities were at record levels for that month, and preliminary reports indicate that new highs were reached in March.

In spite of the exceptionally high level of sales since the beginning of the year department stores in this District have been able to build up their inventories moderately. The seasonally adjusted index of stocks at the end of February was 10 per cent higher than at the close of last year, but remained 5 per cent below the peak reached last summer. Compared with February last year stocks were 9 per cent higher, a considerably smaller increase than in sales, however.

During February, department stores continued to place exceptionally large orders for merchandise, and outstanding orders at the close of the month were at a new high, 10 per cent above January and 20 per cent above the year earlier level. The dollar volume of orders plus stocks on hand are the equivalent of sales for the next six months at the level (seasonally adjusted) of the first quarter of this year. This ratio of orders plus stocks to sales is about 50 per cent above the prewar (1940) ratio.

Indexes of Business

Index	1945		1946	
	Feb.	Dec.	Jan.	Feb.
Industrial production*, 1935-39 = 100 (*Board of Governors, Federal Reserve System*)	236	164	160	154p
Electric power output*, 1935-39 = 100 (*Federal Reserve Bank of New York*)	206	187	187	184p
Ton-miles of railway freight*, 1935-39 = 100 (*Federal Reserve Bank of New York*)	231	181	183p	
Sales of all retail stores*, 1935-39 = 100 (*Department of Commerce*)	193	211	228p	
Factory employment				
United States, 1939 = 100 (*Bureau of Labor Statistics*)	162	122	123	118p
New York State, 1935-39 = 100 (*New York State Dept. of Labor*)	144	118	119	112p
Factory payrolls				
United States, 1939 = 100 (*Bureau of Labor Statistics*)	334	215	217p	
New York State, 1935-39 = 100 (*New York State Dept. of Labor*)	290	224	227	206p
Income payments*, 1935-39 = 100 (*Department of Commerce*)	245	234	232p	
Wage rates, 1926 = 100 (*Federal Reserve Bank of New York*)	169	168	170p	
Consumers' prices, 1935-39 = 100 (*Bureau of Labor Statistics*)	127	130	130p	
Velocity of demand deposits*, 1935-39 = 100 (*Federal Reserve Bank of New York*)				
New York City	85	99	101	91
Outside New York City	74	84	79	79

* Adjusted for seasonal variation. *p* Preliminary.

General Business and Financial Conditions

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

PRODUCTION and employment at factories declined in February but advanced in the first three weeks of March, reflecting mainly the influence of the steel strike. The value of retail trade reached new record levels. Wholesale prices of a number of commodities increased.

Industrial Production

Output of durable goods declined considerably further in February, while production of nondurable goods and minerals continued to increase. Production of steel, automobiles, and machinery has advanced sharply since the settlement of wage disputes in these industries, and the Board's index of industrial production, which declined from 160 in January to 154 per cent of the 1935-39 average in February, will show a considerable rise in March.

Steel mill operations in February were at an average rate of 19 per cent of capacity as compared with 50 per cent in January. Output at steel mills has increased rapidly since the middle of February, and during the week ending March 23 is scheduled at 89 per cent of capacity—the highest rate since V-J day. In February production of nonferrous metals, machinery, and transportation equipment also declined, reflecting chiefly the direct or indirect effects of work stoppages. Lumber production, after advancing in January, showed little change in February. Plate glass production increased sharply to the highest level since November 1941.

Production of most nondurable goods continued to advance in February, partly reflecting increases in working forces. Output at textile mills rose further and was at a rate slightly above the level of a year ago. Activity in the meat packing industry increased sharply in February following settlement of the wage dispute at major plants and was 20 per cent higher than a year ago. Flour production likewise showed a substantial gain for the month. In March a Federal program was instituted to reduce domestic consumption of wheat in order to increase exports for relief purposes. Output of automobile tires in February rose to the highest rate on record.

Output of coal was maintained at exceptionally high levels in February and early March. Crude petroleum production showed a gain in February, but declined in March.

Employment

Employment continued to advance from the middle of January to the middle of February in most lines of activity except at manufacturing plants closed by industrial disputes. After February 15, with the settlement of the steel strike, there were large increases in employment in the durable goods industries and by the middle of March employment in private non-agricultural establishments is estimated to be about 2½ million larger than last September, after allowing for seasonal changes. Unemployment increased from January to February by about 400,000 to a level of 2,700,000 persons.

Distribution

Department store sales in February, after allowance for seasonal changes, were the largest on record by a considerable margin, and in the first half of March sales continued to show marked increases over a year ago. Total retail trade in February was probably close to one-fourth higher than in the same month last year.

Shipments of most classes of railroad freight increased from the middle of February to the middle of March and almost the same number of cars were being loaded in the first two weeks of March as during the same period last year, when shipments of war products were at peak levels.

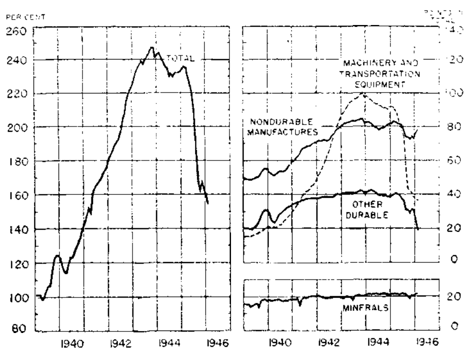
Commodity Prices

The general level of wholesale commodity prices advanced one per cent from the middle of February to the middle of March, reflecting increases in most groups of agricultural and industrial products. Since last September wholesale prices have advanced 3.3 per cent, according to the Bureau of Labor Statistics' index. Price control regulations permit manufacturers and distributors to pass on to consumers only part of the recent advances granted in maximum wholesale prices.

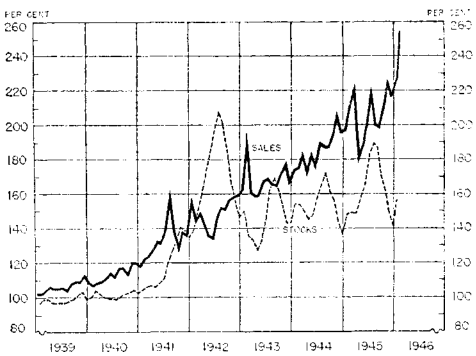
Bank Credit

Retirement of 2.8 billion dollars of United States Government obligations during March was reflected in a decline of about the same amount in Treasury balances during the four weeks ended March 20. Holdings of Government securities by both Federal Reserve Banks and member banks declined, accompanying reductions in Treasury deposits at these banks. Deposits, other than those of the Treasury, at member banks showed little change. Member banks' required and excess reserves also changed little during the period. Member banks increased their borrowings at the Reserve Banks to over 700 million dollars on March 13, but reduced them somewhat in the following week.

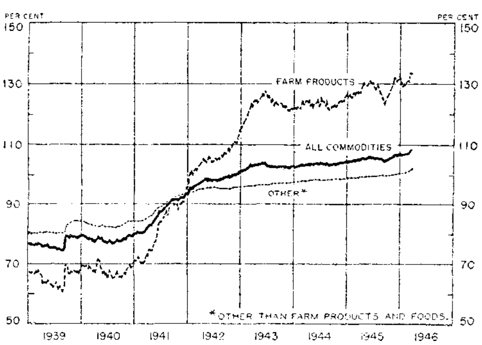
Commercial and industrial loans at member banks in leading cities continued to increase between the middle of February and the middle of March. Loans on Government securities to brokers and dealers fluctuated considerably in connection with the Treasury retirement and refunding operations, while those to others continued to show a slow decline.



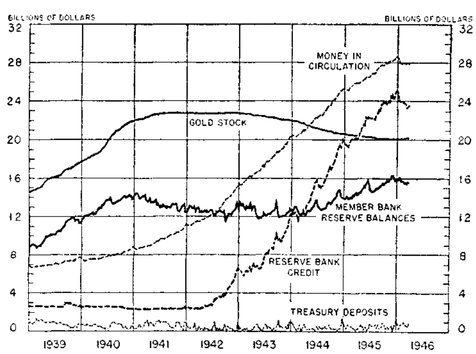
Indexes of Physical Volume of Industrial Production, Adjusted for Seasonal Variation, 1935-39 Average=100 Per Cent (Groups shown are expressed in terms of points in the total index)



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



Indexes of Wholesale Prices Compiled by Bureau of Labor Statistics (1926 average=100 per cent; latest figures are for week ended March 16)



Member Bank Reserves and Related Items (Latest figures are for March 20)