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Of Credit and Business Conditions

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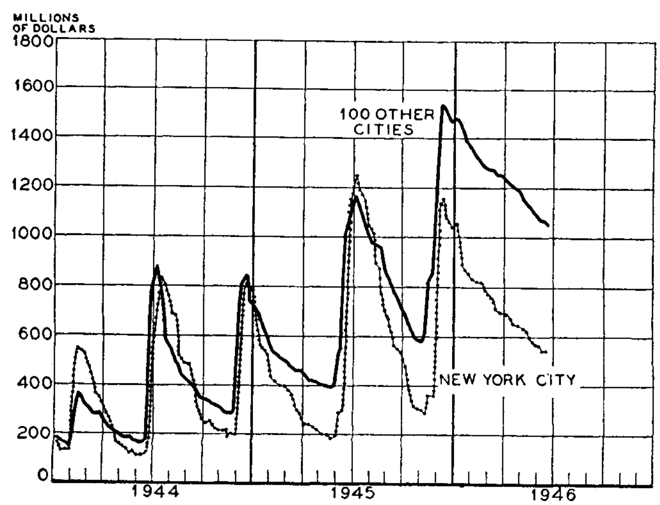
MONEY MARKET IN JUNE

During the course of the past month, all bank loans made to facilitate the purchase of securities in the Victory Loan drive and still outstanding became six months old or older. On June 19, the volume of loans on Government securities to others than brokers and dealers still totaled 1.6 billion dollars among weekly reporting member banks, or nearly twice the amount at the low point preceding the drive. Liquidation of such loans since the Victory Loan has lagged considerably compared with the rate of repayments following preceding War Loans. As shown in the accompanying chart, liquidation has been particularly slow in the weekly reporting banks in 100 cities outside New York, where only half the increase during the drive had been paid off by June 19, in contrast to 74 per cent for the reporting banks in New York City. On that date, the outstanding loans of reporting banks in the 100 cities other than New York were still nearly 500 million dollars greater than before the Victory Loan and only about 100 million dollars below the peak reached during the Seventh War Loan; they exceeded the highest points reached in all earlier War Loans. The loans of New York City banks remained about 250 million greater than early last November, but were well below earlier peaks.

Loans on Government Securities to Others than Brokers and Dealers
Weekly Reporting Member Banks in New York City and 100 Other Cities



Although not all the outstanding bank loans on Government securities were arranged during the Victory Loan, a very substantial proportion were made at that time, including a large volume of loans to aid in the purchase of long term bonds. While loans enabling bona fide investors to acquire bonds in anticipation of investable income during the next few months accounted for part of the credits arranged during the Victory drive, the substantial volume still outstanding indicates considerable use of bank credit for the speculative carrying of securities.

In order to curtail such use of bank credit in the Government securities market, the Federal Reserve Banks have addressed a circular letter to all the banks in their respective districts requesting their cooperation in reducing the volume of bank credit for the purpose of purchasing and carrying Government securities. The letter sent to banks in this District reads in part as follows:

> During the Victory Loan Drive, a large amount of long-term bonds was purchased with the aid of bank loans. It has been reported that many such loans have not been repaid out of current income and that bank credit has been used for speculative carrying of Government securities. Reports have been received also of the activities of money brokers and others seeking to arrange bank loans on Government securities for customers without provision for amortization and with margins and rates of interest which emphasize high returns on small amounts of the borrower's own funds required for relatively large transactions. The same general considerations which led to efforts to discourage speculative subscriptions to Government securities during the war loan drives clearly apply to this sort of loan.

SAVINGS BOND DRIVE

The Treasury in this period is inviting the public to make an investment in high living standards by augmenting its purchases of Savings bonds. Citizens are urged to hold to maturity the bonds they already own, as well as to continue and, if possible, to add to their payroll deduction purchases. Every dollar invested in Savings bonds at this time will mean one dollar less competing for the consumers' goods that are not yet available and so will constitute the best kind of safeguard for the value of the savings of the public.

Borrowing from banks creates an addition to the country's money supply to the same extent as direct purchases of securities by banks. The existing unprecedented supply of deposits and currency, in the face of an inadequate supply of goods and services, is a dangerous inflationary potential. Therefore, every effort should be made to reverse the wartime trend of increased borrowing for the purpose of purchasing and carrying Government securities and to reduce as much as possible the use of bank credit for that purpose.

It seems timely to ask your cooperation to this end, particularly as loans made to facilitate purchases of Government securities in the Victory Loan Drive, which are still unpaid, have now run for more than six months. You will realize, of course, that nothing will be accomplished if one bank makes a loan on Government securities to enable a customer to comply with the request of another bank to pay off a loan originally made to purchase Government securities.

Member Bank Reserve Positions

Treasury transactions related to public debt retirement, interest payments on outstanding Treasury securities, and quarterly income taxes dominated the money market during the past month and generated substantial shifts of funds not only between individual banks but also between New York and other parts of the country. Demand for Federal Reserve Bank credit fluctuated widely, increasing as the Treasury accumulated funds with the Federal Reserve Banks prior to the public debt redemptions of the first and middle of the month and decreasing with the disbursement of the funds by the Treasury. The net effect of the Treasury's operations, however, was a considerable demand for Federal Reserve credit for the month as a whole, as the redemption of securities held by the Federal Reserve System resulted in a loss of member bank reserves, and there was an increase in member bank reserve requirements owing to a shift from War Loan accounts to privately owned deposits.

At one time during the month, on June 19, excess reserves of all member banks dropped temporarily to 550 million dollars, lowest since August 9, 1933, but that was of little significance as it resulted mainly from a one-day deficiency in the reserves of New York City banks which were adjusting their positions following a large excess of reserves earlier in the week. The distribution of reserves was uneven, and some banks gaining funds were able to repurchase substantial amounts of Treasury bills from Federal Reserve option accounts and acquire short term Government obligations in the market, while others in need of reserves sold such securities directly and indirectly to the Federal Reserve System.

Redemption of 2 billion of a 4.8 billion dollar issue of maturing certificates on June 1 was effected with but minor disturbance to the money market since the securities were redeemed partly with funds previously accumulated with the Federal Reserve Banks. Some of the strain on member bank reserves associated with the retirement operation therefore had already occurred, and the banks had to some extent adjusted their reserve positions in the week ended May 29. Treasury disbursements in the week ended June 5, which included payment of the redeemed securities, exceeded receipts by a substantial margin and, as retirement of the certificates held by the Federal Reserve Banks absorbed only a portion of these expenditures, the commercial banks as a group had some net gain of reserves. The June 1 certificate, however, was widely held and its partial redemption, largely out of the proceeds of War Loan withdrawals which exceeded 2.2 billion dollars, effected a shift of funds into private deposit accounts and a substantial rise in member bank reserve requirements.

The subsequent two weeks were practically a repetition of the events of the previous two. As in the week ended May 29, member bank reserve positions were under some pressure in the week ended June 12 when Treasury receipts from taxes (largely income taxes withheld currently at the source) and limited War Loan withdrawals exceeded expenditures. Treasury deposits with the Reserve Banks were increased more than 450 million dollars in partial preparation for the redemption beginning on the 15th of the month of the entire amount of two bond issues totaling 1,855 million dollars and for interest payments on the public debt of approximately 750 million.

Treasury receipts in the week ended June 19 were very heavy as they included 1.1 billion dollars of quarterly instalments on income taxes and 1.6 billion in War Loan withdrawals, but were substantially exceeded by disbursements, including the redemption of called bonds and interest payments, as well as other expenditures. The entire amount of the net expenditures did not reach the commercial banks, however, since about 150 million dollars were absorbed in the redemption of the called bonds held by the Federal Reserve Banks. Furthermore, Treasury disbursements in excess of tax receipts resulted in an expansion of about one quarter of a billion dollars in reserve requirements, as reserve-free War Loan deposits were converted into private deposits.

Treasury debt operations and quarterly income tax payments also caused substantial shifts of funds between banks in New York City and in other parts of the country. Since the New York City institutions and their customers held a substantial portion of the redeemed securities, the banks here received a large share of the funds paid out by the Treasury in connection with the debt retirement; their net receipts from this source and interest payments amounted to 400 million and 1,100 million dollars, respectively, in the weeks ended June 5 and 19. However, as banks in other parts of the country lost reserves through Treasury operations, they financed their losses and other needs for funds in large part by withdrawing the proceeds of redemptions of and interest payments on Government securities held with their New York correspondents, and through sales of short term securities in the New York market. They also obtained funds from transfers out of New York by commercial and financial concerns, apparently in part for the payment of taxes in other parts of the country. For the four weeks ended June 19, the aggregate withdrawal of funds from New York by out-of-town banks and their customers came to 1,200 million dollars.

As the net result of Treasury operations and the outflow of business and banking funds, reserve positions of the New York banks experienced alternate periods of pressure and ease. Consequently, these institutions alternately expanded or contracted their use of Federal Reserve credit by considerable amounts, chiefly through purchases of Treasury bills from or sales to the New York Reserve Bank.

In the latter part of the month, heavy income tax collections, supplemented by small withdrawals of War Loan deposits, resulted in a renewed increase in Treasury balances with the Reserve Banks, which rose about 470 million dollars in the week ended June 26 to 890 million. The resultant drain on reserves necessitated large sales of short term Government securities by the member banks, including Treasury bills and certificates, many of which were absorbed by the Reserve Banks. The heavy accumulation of Treasury deposits in the Reserve Banks, however, enabled the Treasury to limit its War Loan calls in connection with the retirement of 2 billion (out of a 4.9 billion dollar issue) of 0.90 per cent Treasury notes on July 1 and to make substantial net disbursements at that time, which again will help to offset redemptions of the notes in Reserve Bank portfolios and to facilitate adjustments in the reserve positions of member banks.

PROGRESS OF THE CHECK ROUTING SYMBOL PROGRAM

The complex mechanism for the clearing and collection of checks has reached its present state of efficiency only after a long period of development through trial and error. Experience gained in the everyday operation of the system of exchanging checks revealed its deficiencies and indicated the nature of the reforms or revision needed. As part of the constant endeavor to perfect the clearing and collection process, a new plan involving a routing symbol to be imprinted on checks of all par clearance banks was introduced by the American Bankers Association a year ago this past month. The new device was developed by the Bank Management Commission of the ABA and the Committee on Collections of the Federal Reserve System after several years of study.

The aim of the new routing plan is to increase the efficiency and speed of the collection of out-of-town checks by readily identifying through a series of numbers the Reserve Bank or branch at which checks on given banks are receivable for collection (that is, the Reserve Bank head or branch office in the territory of which the commercial bank is located). For this purpose, all par clearance banks have been assigned routing symbols by the Federal Reserve Banks. Inasmuch as the effectiveness of the new plan depends on its widest possible adoption, all par banks have been urged to include the routing symbols on their checks and to make every effort to obtain the cooperation of those of their customers who have their own checks printed likewise to include the routing symbols. The benefits of the new procedure in reduced float, fewer sorting or routing errors, and quicker return of unpaid items will accrue to the general check writing public and to the banking system as a whole, including the small country banks with comparatively few items, as well as the larger banks with thousands and hundreds of thousands of items deposited by their customers and correspondent banks, and the Federal Reserve Banks.

In the absence of the routing symbol, the proper Reserve Bank or branch to which a check should be routed is not always readily ascertainable from the face of the check, which shows only the city and State of the drawee bank,[1] because many States lie in more than one Federal Reserve District and most Reserve Banks have one or more branches. In sorting items, transit clerks consequently have to rely on their memories to a large extent. In doubtful cases where memory is hazy, they have to resort to the time-consuming procedure of looking up the proper Reserve Bank or branch in the Federal Reserve Par List. With the substantial increase in the volume of checks written during and after the war, the pressure to "get the checks out" has grown and there have been many more "doubtful cases," just when there has been a loss of trained personnel and more rapid turnover of staffs. Missorting and misrouting of items have consequently increased during and since the war despite efforts to minimize them. But the problem is essentially a peacetime one which has merely been aggravated by wartime conditions.

In general, the following three types of check sorting and routing errors are more frequently made than others largely because of the lack of ready identification on the check's face of the appropriate Reserve Bank or branch at which the item is collectible in the shortest possible time, and for other reasons:

1. Routing a check to a Federal Reserve office in a district other than the one in which the item is collectible. This kind of error occurs when the drawee bank is located in a State which lies in two Federal Reserve Districts. In such a case, the Federal Reserve Bank or branch receiving the check will forward it to the proper Reserve office for collection, but the time required to collect the item is lengthened unnecessarily.

2. Routing a check to the correct Federal Reserve District but to a Federal Reserve office in a territory other than the one in which the check is collectible in the shortest possible time. Such an error can occur in States which lie wholly within one Federal Reserve District, such as Texas. Thus, a check on a commercial bank in Austin, Texas, may have been routed to the branch office of the Dallas Reserve Bank in El Paso even though Austin is situated in the San Antonio branch territory and it should have been sent to that office.

[1]The city and State of the drawee bank are indicated both by name and by code in the form of the ABA transit number which appears on all checks.

The El Paso branch would presumably forward the check to San Antonio for collection. Check "travel-time" would therefore have been considerably longer than necessary.

3. Routing a check on a nonpar bank to a Federal Reserve Bank or branch for collection. Since such items are not collectible through the facilities of the Federal Reserve System, they are returned to the banks presenting them. Widespread use of the routing symbol will automatically eliminate this type of error since only par banks have been given symbols.

The routing symbol eliminates all guesswork and leaves little or nothing to memory, and thus tends substantially to quicken the pace of sorting and to reduce the frequency of sorting errors. The sorting clerk merely matches the routing symbol on a check with one appearing over a cubicle in the sorting rack. This also means that less training of new clerks is necessary.

The routing symbol itself is a three or four figure number, the first digit or the first two digits indicating the number of each Federal Reserve District from 1 to 12. The second digit (or the third in case of a four digit symbol) designates the head office of the Reserve Bank which is given the number 1 or the Reserve branches which are numbered 2, 3, 4, or 5 according to alphabetical order. Numbers 6-9 are reserved for special collection arrangements. The last digit, when a cipher (0), indicates that the check is acceptable for immediate credit if received in time to be cleared on the current day. When the number is 1-9, it indicates that the item is receivable for deferred credit in accordance with the time schedule of the Reserve Bank or branch where deposited, and also serves to identify the States within a Reserve district which are numbered consecutively in alphabetical order, thereby facilitating the sorting and collection of items within a district.

Thus, the routing symbol of a bank in Bridgeport, Connecticut is 211, the first digit indicating the Second or New York Federal Reserve District, the second digit indicating that the item is receivable for collection at the head office in New York City, and the third figure showing that the item is acceptable for deferred credit and that the drawee bank is located in Connecticut. The routing symbol for checks drawn on the Treasurer of the United States or by any of the Federal Reserve Banks is 000. Such items are acceptable for immediate credit at any Federal Reserve Bank or branch. The routing symbols that have been assigned to banks in the Second Federal Reserve District are shown in the accompanying list.

Survey of Second District Banks Having Some Checks in Circulation Carrying the Fractional Symbol*

Date survey completed	Second District		New York		Northern New Jersey and Fairfield County, Connecticut	
	Number of banks	Per cent of all banks	Number of banks	Per cent of all banks	Number of banks	Per cent of all banks
1945						
December 13	317	32.6	186	26.6	131	47.8
1946						
January 16	429	44.3	271	38.9	158	57.9
February 26	604	63.2	407	59.7	197	71.9
April 10	700	73.2	483	70.8	217	79.2
June 14	798	82.9	557	80.7	241	88.3

* Only checks having the ABA transit numbers and routing symbols in the upper right corner are included. Data cover all par commercial banks and industrial banks with checking accounts and 7 agencies of foreign banks. All banks in the District pay their checks at par.

Routing Symbols Used in the Second Federal Reserve District

Head or Branch Office of the Federal Reserve Bank of New York*	Symbol	For checks collectible through or drawn on banks in
Head office—New York City		
Immediate credit	210	New York Clearing House
	260	Manhattan, Bronx and Brooklyn Collection Arrangement #
	260	City Collection Department, New York Clearing House #
	270	Northern New Jersey Clearing House #
Deferred credit	211	Connecticut (Fairfield County)
	212	New Jersey (12 northernmost counties)
	213	New York (entire State except for 10 westernmost counties)
Buffalo Branch—Buffalo, New York		
Immediate credit	220	City of Buffalo
Deferred credit	223	New York (10 westernmost counties)

* At which checks on Second District commercial banks are receivable for collection.
# Special collection arrangements.

The routing symbol appears on checks as the denominator or lower number of a fraction. The numerator or upper half of the fraction is the ABA transit number first adopted as an aid in collecting checks in 1911 before the establishment of the Federal Reserve System. This number which also appears on all checks is necessary to identify individual banks in connection with local check clearings and intradistrict collections. In order to promote uniformity and further facilitate sorting, it has been recommended that transit numbers and routing symbols in fractional form be placed in the upper right corner of newly printed checks.

Since the introduction of the routing symbol about a year ago, considerable progress has been made in securing its adoption by the banks. A survey taken in February of this year indicated that about half the par clearance banks in the country had some checks in circulation carrying the routing symbol. The progress in the New York Federal Reserve District where all commercial banks pay their checks at par has been rapid. In December 1945, about one third of the banks showed some checks in use with the routing symbol in the approved location (upper right corner), and by April of this year the proportion had grown to nearly three quarters. By mid-June some 798 banks (or 83 per cent of the total) were making some use of the symbol, as shown in the accompanying table (the data include a few industrial banks and agencies of foreign banks).

In actual volume, however, the proportion of checks carrying the symbol was much smaller. Stocks of old checks are still large owing to the heavy accumulation of inventories during the war for fear of a paper shortage. Thus, many banks are allowing their stocks of old checks to run off. Many others have in circulation both new checks with the symbol and old ones without it. In many cases, however, banking institutions have had their routing symbols overprinted or stamped on the old checks. This is likewise true, but to a lesser extent, of bank customers who have their own checks printed privately. According to a survey made by this bank, over 200 nationally known corporations now have the routing symbols on their checks. The difficulties in the way of widespread use of the routing symbol have been gradually reduced as stocks of old checks have run out and the end of the war has improved the paper and printing situation, so that progress in the future should be much more rapid than in the past.

Full-scale adoption of the new symbol by both banks and their customers using custom-made checks is necessary to realize the full economy of time and money possible under the new plan. Reduction in sorting time, in sorting errors and mis-routing, and in check "travel-time", with consequent reduction in operating costs and improvement of service to bank depositors, should be the eventual outcome of the complete use of the new symbol. But before such results can be achieved it will also be necessary for banks, depositors, and check manufacturers to cooperate further to promote uniformity in checks including greater standardization of size as well as printing of the transit number and routing symbol in fractional form in the approved position on the checks.

FRENCH-AMERICAN ECONOMIC AND FINANCIAL AGREEMENTS

On May 28 France received credits from the United States totaling 1.4 billion dollars. Together with the 550 million dollar Export-Import Bank loan granted last September, France thus has obtained almost 2 billion dollars from the United States since the end of hostilities. This figure represents about one half of the aggregate postwar foreign lending of the United States (excluding the 3,750 million dollar loan to the United Kingdom still pending before the United States Congress). The Export-Import Bank portion of the advances—550 million dollars in September 1945 and 650 million dollars on May 28—amounts to one third of the bank's lending power. This large-scale United States aid was granted in order to help France implement a program of reconstruction and modernization that "will facilitate the integration of Europe in the world economy and enable France to resume her place as a great producing and trading nation."[1]

[1] All quotations in this article are from the statements jointly released on May 28 by the Government of the United States and the Provisional Government of the French Republic.

Since the liberation France has made substantial progress toward recovery. With the aid of her Allies, her communications have been restored, and alone among the European countries she has succeeded in raising her coal production over the prewar level. Nevertheless, France's industry today is producing at only about 60 per cent of the 1938 rate. This is insufficient to sustain even a moderate level of consumption and still leave an adequate margin for capital requirements. France's production must therefore be increased enough to make possible the recouping of war losses of capital and the replacing of obsolete equipment. As a first step, the French plan to increase production to the 1938 level by the end of 1946 by utilizing their existing plant capacity; as a second step, they propose so to expand their economic potential as to support a production level as much as 25 per cent in excess of the all-time 1929 peak. With these objectives in mind, the French Government drew up an over-all plan for the modernization and re-equipment of the French economy, which it disclosed to the United States Government during the credit negotiations.

The French program cannot be implemented without a large and comprehensive import program. Because of these import requirements, and because of the small volume of exports anticipated during the initial reconstruction period, France's balance of payments will show a heavy deficit over the next few years. To cover this deficit, the French contemplate using, first of all, their own resources, official and private. How fast the official gold holdings have recently been drawn upon is shown by the successive transfers from the Bank of France to the French Stabilization Fund, as a result of which the French gold holdings have been reduced from 1,777 million dollars in September 1945 to 797 million dollars on May 2, 1946. The French also contemplate liquidating almost all their disposable private assets abroad. The remaining deficit is to be covered mainly by the foreign credits.

The United States financial aid which France received on May 28 "pending the time when the International Bank for Reconstruction and Development will be in full operation" includes: (a) the direct loan of 650 million dollars from the Export-Import Bank; (b) a line of credit totaling 720 million dollars for the payment of goods supplied to France by the United States Government since the end of the war and for the purchase of United States surplus property now in France and in French overseas territories; and (c) an additional credit for the purchase of approximately 750,000 tons of merchant shipping owned by the United States Government. In addition to extending these credits, the United States Government states that it "will continue to assist France in securing an adequate supply of coal from Germany."

The Export-Import Bank line of credit reportedly carries interest at 3 per cent and has a term of 25 years; however, no repayments of principal are to be effected during the first five years, the entire amortization of capital being made in the remaining twenty. The 720 million dollar loan carries interest at the rate of 2 per cent per annum, beginning July 1, 1946; beginning on July 1, 1951 interest and principal are to be paid in thirty equal annual instalments. Should the payment of any instalment not be "in the joint interest of both governments . . . because of extraordinary and adverse economic conditions arising during the course of payment," it may be postponed for a period agreed upon by the two governments.

By extending credits to France, and by assisting her in securing an adequate and much needed supply of coal from Germany, the United States proposes to assist in the reconstruction and modernization of her economy so as to "make possible full participation by France in cooperative achievement of an expanding world economy." Before the war France with her overseas territories, had a share in world production and trade varying between 5½ and 6 per cent, a proportion not widely divergent from her share in world population (5.2 per cent), and she was the fourth largest exporting and importing nation, being surpassed only by the United States, the United Kingdom, and Germany. The new credits are expected to assist France in recovering her prewar position.

As a result of the negotiations, the two governments in addition have found themselves in "full agreement on the general principles which they desire to see established to achieve the liberation and expansion of international trade." On the whole, the joint declaration on commercial policy reiterates the general principles formulated in the Proposals for Expansion of World Trade and Employment issued by the United States Department of State at the close of the Anglo-American loan negotiations. Likewise, the stipulation providing for the conclusion of agreements "for the substantial reduction of tariffs and other barriers to trade and for the removal of discriminatory arrangements" prior to the World Trade Conference restates similar proposals in the Anglo-American joint statements.

However, while the Anglo-American loan agreement aimed, in its commercial policy aspects, primarily at eliminating exchange restrictions and ensuring convertibility of sterling balances in general, the specific provisions of the French-American agreement concern essentially the elaboration of a new French tariff as a step precedent to the negotiation of reciprocal tariff reductions, and in addition the elimination of the French practices of quantitative trade restrictions and export subsidies. The two governments have also reached agreement on the return to private channels of trade between France and the United States. On the other hand, various measures were discussed during the negotiations with a view to promoting French exports to the United States, inasmuch as "the two governments have agreed that important benefits would accrue to both countries from a substantial expansion of French exports to the United States."

The French reconstruction program, if it is successfully implemented, should enable France to balance both her domestic economy and her international accounts. With the impetus provided by the addition of imported resources, the development of production in France should proceed at a rate fast enough to enable her to participate in common efforts to liberate and expand world trade. The French-American agreement is therefore to be regarded as an integral part of a broad program, inaugurated by the Anglo-American agreement, for reviving international trade between the three largest exporting and importing nations in the world.

CONSTRUCTION IN THE SECOND DISTRICT

Building construction in the Second Federal Reserve District fell sharply during the war years and at a much faster rate than in the country as a whole. In 1939 building contracts awarded in the District represented 20 per cent of the total for 37 Eastern States; by 1943 the proportion had fallen to 8 per cent. There was a small gain in the next two years, and the annual rate of awards in the first four months of 1946 showed a marked upturn to 15 per cent. Contract awards for nonresidential building in the Second District from January to April 1946, the last month for which District data are available, were four times as large as in the corresponding period of 1945, and 17 per cent above the 1942 wartime peak. Residential building, which dropped to 9 per cent of the District's total contract awards in 1944, has gained steadily and estimates for 1946 indicate that it has resumed its prewar importance with 44 per cent of the aggregate dollar value of building contracts in this District.

The present tight housing situation in the Second District is a direct result of the extremely low level of building activity during the 1930's, followed by the construction of a very limited number of new dwelling units during the war years. In Bridgeport, Connecticut, Nassau County, Long Island, and the Buffalo-Niagara Metropolitan area, the condition has been aggravated by an influx of population which more than offset out-migration and losses of civilian residents to the Armed Forces. Other cities which experienced net losses in population during the war, in particular New York City, are also feeling the pressure of inadequate housing facilities as returning servicemen again swell their civilian population. The higher average level of income has intensified demand for better living quarters and many families who have been "doubling up" are now seeking separate living quarters. At the same time, the rapid reconversion of war plants to civilian production has encouraged some migrant war workers not to return to their original homes. For the Second District as a whole daily average residential building contract awards, as reported by the F. W. Dodge Corporation, have experienced an almost uninterrupted rise since August 1945, the only decline occurring between December and January. In April, District contract awards achieved the highest rate since the building boom in the 1920's.

The accompanying table indicates that the residential construction volume in all major metropolitan areas in the Second District except New York City followed closely similar

Residential Building Contracts Awarded in Second District Cities (In millions of dollars)

Locality	1939	1941	1944	1946*
New York	217.6	156.2	3.8	285.8
Newark-Jersey City	46.0	57.4	6.6	55.0
Bridgeport	12.2	20.9	1.0	11.4
Buffalo	10.7	27.4#	.7	13.3
Rochester	4.0	6.3	†	13.4
Albany	3.5	5.0#	.3	2.1
Syracuse	3.2	4.3#	.6	2.2
Utica	1.1	6.4#	.8	3.3

* Estimated annual rate, based on first four months, seasonally adjusted.
# Data are for 1942, peak wartime year.
† Less than $100,000.
Source: F. W. Dodge Corporation; 1946 estimated by Federal Reserve Bank of New York.

patterns over the war period. The small volume of building in the prewar decade was followed in a number of communities by a rise from 1939 to 1941 or 1942 to provide homes for war workers, and to replace substandard housing areas. In New York City, however, residential building reached a relatively high point in 1939 and fell steadily for the next five years to a wartime low of 4 million dollars in 1944. In other urban areas expansion of residential building reached top volume in 1941 or 1942. Completion of emergency war housing and the wartime restrictions which directed supplies and labor into other fields resulted in sharp declines in the volume of contracts awarded through 1944. Residential building in the District turned sharply upward in 1945 in all metropolitan areas except Utica, and data for the first four months of 1946 indicate that this trend is continuing at an increasing rate under the impetus of the emergency housing program.

The demand for more housing is pressing in practically all urban centers of the District. The critical need for housing in New York City is reflected in the City's abnormally low vacancy ratio, estimated by the Department of Housing and Buildings at less than 2 per cent in 1945, against 6 per cent in 1940. This decline in vacancies has been accompanied by a rise in the number of dwelling units available as fewer units were demolished in each successive wartime year, and the number of boarded-up units declined by 25 per cent over the five-year period. In addition to the substandard dwellings brought into use by the war emergency, some 3,500 publicly financed permanent dwellings were made available in New York City during the war, more than twice the number added in the entire Upstate area. Public and private housing projects which had to be shelved temporarily at the peak of the war effort have now been resumed, and plans for State-aided projects call for a total of close to 19,000 additional dwelling units in 18 separate projects in the New York Metropolitan area. Land has been acquired for five projects contemplated in Westchester County. State loans for three of the New York City projects have been recently approved; demolition has started on three others in Manhattan. Foundations are being laid at one Brooklyn project, and bids are being taken on another. No completion date has been announced for any of these developments. Among the major privately financed housing projects the three being built by the Metropolitan Life Insurance Company are furthest advanced. Demolition and construction are being carried on simultaneously, and upon completion, the three projects will contain over 12,000 apartments. They are expected to be ready for the first occupants in the fall of 1947.

A survey by the Niagara Frontier Planning Association reveals that between 1930 and 1945 only 7,442 houses were built in the Niagara-Buffalo area compared with estimated minimum requirements of 45,000. There are at present over 60,000 improved lots available in Niagara and Erie Counties, and Buffalo banks are prepared to make mortgage loans in 1946-47 aggregating upwards of 40 million dollars. Materials present a bottleneck, however, with the local lumber supply amounting to only 15 per cent of the 1941 average. In the Niagara Frontier area local builders expect to construct only 1,632 houses this year; their maximum capacity with a normal flow of supplies would be about 11,000 units. The influx of war workers heightened the seriousness of the housing shortage in this area, and as a result slum clearance has been delayed. The work will be undertaken as soon as homes can be found for the present occupants who will be displaced when demolition is begun.

Local housing authorities have been established in most cities in New York State, primarily for the purpose of replacing slum areas with new low-rent housing projects. The New Rochelle Municipal Housing Authority, for example, plans to demolish 51 houses as soon as tenants can be relocated. On the site of this slum area the Authority will erect the Winyah Gardens houses. This development, together with a second State-aided project, Huguenot Gardens, will provide living quarters for 565 low-income families in New Rochelle. In Mount Vernon a project to be jointly financed by the State and City of Mount Vernon will provide 650 dwelling units; the Elmira Housing Authority plans a low-rent project of 125 dwelling units. Projects of State and local housing authorities in New York State will be supplemented to a considerable extent by the privately financed housing projects contemplated by the larger insurance companies and savings banks.

The State housing program centers around removal of slum areas and provision of housing facilities at rents which low-income groups can pay. In addition, the State has recently been obliged to provide temporary emergency housing for veterans without diverting undue amounts of material or labor from permanent building construction. These public efforts in the field of housing are designed not to compete with private enterprise, but rather to supplement it in lines where private building cannot economically meet the need. The Coast Guard Base in Brooklyn, and the Fox Hills Terminal in Staten Island have both been opened up to veterans and together will ultimately provide 1,600 apartments. Other military installations to be used for temporary housing are Fort Niagara, Syracuse Air Base, Fort Tilden (Queens County), Miller Field and the Staten Island Terminal (both on Staten Island), Fort Schuyler (Bronx), and Fort Slocum (New Rochelle). Camp Shanks (Orangeburg) and the Sampson Naval Training Base (Geneva) are also being considered.

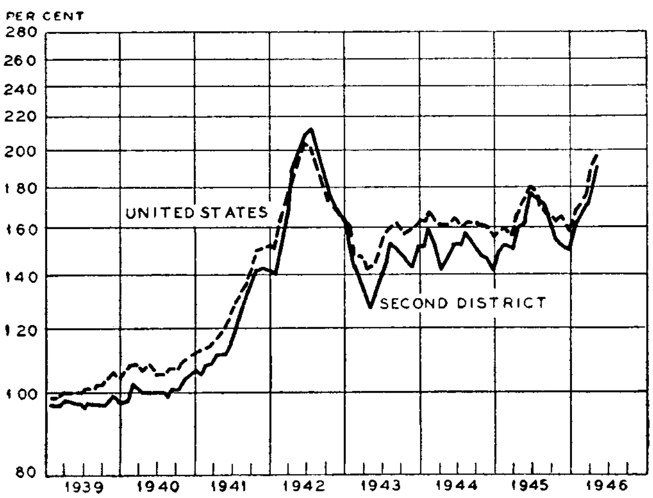
DEPARTMENT STORE TRADE

Department store sales in the Second Federal Reserve District during June again reached an estimated total of about 100 million dollars for the month. This represents an increase of 40 per cent over sales in June 1945.

Stocks of Second District department stores at the end of May are estimated at 234 million dollars, an increase of 16 per cent over the value of stocks a year ago. Since the first of the year stocks of yard goods, women's underwear and shoes, and men's wear have been fairly consistently lower than during the corresponding period in 1945, but increases in stocks of linens and bedding, other women's wear, and especially home-furnishings, have more than compensated for shortages in other departments, so that the seasonally adjusted index of stocks has risen steadily since the end of December. As shown by the accompanying chart, department store stocks in the Second Federal Reserve District have not been maintained since 1942 at as high a level as in the United States as a whole. The increase in sales was even smaller relatively (a similar chart for sales was published in the June issue of the *Monthly Review*) so that the ratio of stocks to sales was higher than in the other Federal Reserve Districts combined. Revised indexes of department store stocks from 1919 to date, which were published by this bank in November 1945 for the Second District, have recently been completed for the United States; indexes for each Federal Reserve District, and for the United States, together with a description of the revision were published in the *Federal Reserve Bulletin* for June 1946.

Outstanding orders of department stores in this District were about 4 per cent higher at the end of May than at the end of April, and more than a third higher than on the corresponding date of last year.

Indexes of Department Store Stocks, United States and Second Federal Reserve District*
(1935-39 monthly average=100 per cent; adjusted for seasonal variation)



* Plotted on ratio scale to show proportionate changes. Indexes for United States revised from 1919 to date, published in the June 1946 *Federal Reserve Bulletin;* May 1946 preliminary.

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

Locality	Net sales May 1946	Net sales Jan. through May 1946	Stocks on hand May 31, 1946
Department stores, Second District	+44	+33	+16
New York City	+47	+35	+15
Northern New Jersey	+44	+35	+20
Newark	+41	+33	+20
Westchester and Fairfield Counties	+43	+32	+24
Bridgeport	+38	+28	+27
Lower Hudson River Valley	+49	+34	+26
Poughkeepsie	+51	+35	+23
Upper Hudson River Valley	+47	+35	+22
Albany	+65	+54	+29
Schenectady	+26	+16	+17
Central New York State	+43	+31	+ 8
Mohawk River Valley	+45	+25	+11
Utica	+34	+21	+ 5
Syracuse	+43	+33	+ 7
Northern New York State	+49	+34	—
Southern New York State	+34	+26	+12
Binghamton	+41	+30	+15
Elmira	+17	+15	+ 8
Western New York State	+36	+27	+12
Buffalo	+36	+28	+16
Niagara Falls	+15	+10	+14
Rochester	+37	+26	+ 7
Apparel stores (chiefly New York City)	+39	+30	+18

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

Item	1945 May	1946 March	1946 April	1946 May
Sales (average daily), unadjusted	149r	206	219	214
Sales (average daily), seasonally adjusted	156	232	219	226
Stocks, unadjusted	166	171	182	192
Stocks, seasonally adjusted	164	170	180	190

r Revised.

Indexes of Business

Index	1945 May	1946 March	1946 April	1946 May
Industrial production*, 1935-39 = 100 (*Board of Governors, Federal Reserve System*)	225	168	165	160*p*
Electric power output*, 1935-39 = 100 (*Federal Reserve Bank of New York*)	208	190	191	189*p*
Ton-miles of railway freight*, 1935-39 = 100 (*Federal Reserve Bank of New York*)	230*r*	203	155*p*	
Sales of all retail stores*, 1935-39 = 100 (*Department of Commerce*)	178*r*	233	227*p*	
Factory employment				
United States, 1939 = 100 (*Bureau of Labor Statistics*)	160	130	136	137*p*
New York State, 1935-39 = 100 (*New York State Dept. of Labor*)	138	117	124	124*p*
Factory payrolls				
United States, 1939 = 100 (*Bureau of Labor Statistics*)	319	233	249*p*	
New York State, 1935-39 = 100 (*New York State Dept. of Labor*)	268	229	245	245*p*
Income payments*, 1935-39 = 100 (*Department of Commerce*)	242	235	234*p*	
Wage rates, 1926 = 100 (*Federal Reserve Bank of New York*)	170	174	176*p*	
Consumers' prices, 1935-39 = 100 (*Bureau of Labor Statistics*)	128	130	131	132*p*
Velocity of demand deposits*†, 1935-39 = 100 (*Federal Reserve Bank of New York*)				
New York City	81	92	100	92
Outside New York City	73	81	80	79

* Adjusted for seasonal variation. *p* Preliminary. *r* Revised.
† Series revised beginning 1941; available upon request.

National Summary of Business Conditions

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

INDUSTRIAL output declined somewhat further in May but advanced considerably in the early part of June, reflecting chiefly the settlement of the coal strike. Department store trade was maintained in record volume for this season of the year. Prices in both wholesale and retail markets continued to advance.

Industrial Production

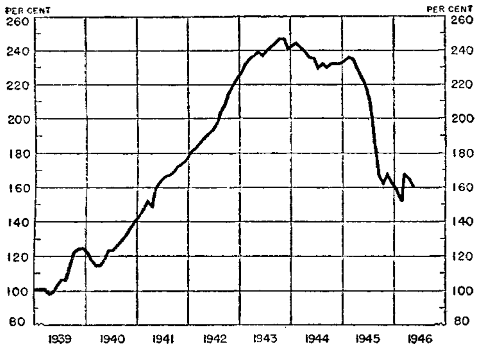
The Board's seasonally adjusted index of industrial production was 160 per cent of the 1935-39 average in May as compared with 165 in April and 168 in March. Since the resumption of bituminous coal mining and the settlement of various other wage disputes in the latter part of May, industrial production has expanded considerably and indications are that the Board's index in June will surpass the March level.

Output of iron and steel was especially affected by the coal shutdown and in May steel ingot production averaged only 52 per cent of capacity as compared with 78 per cent in the previous month. Steel production, however, rose rapidly in June, reaching a scheduled rate of 87 per cent of capacity during the current week. Activity in other durable goods industries was generally maintained in May at about the April level.

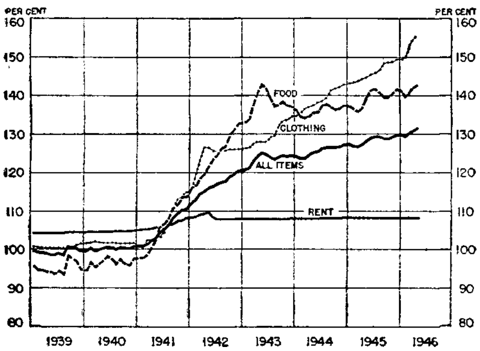
Output of nondurable goods continued to show a slight decline in May, after allowance for seasonal changes, largely due to further reductions in output of flour and cereal products and of meats. Despite these declines production in recent months of most nondurable goods, including many manufactured foods, cigarettes, textiles, shoes, gasoline, chemicals, and rubber and paper products, has been considerably larger than the volume produced for civilian use a year ago and also than the 1939-40 level of output.

Output of minerals rose 12 per cent in May, reflecting largely the resumption of bituminous coal production around the middle of the month. In the first two weeks of June bituminous coal output increased sharply to a level close to the pre-strike rate. Anthracite production was maintained at an exceptionally high level during most of May, and after a work stoppage during the first week of June, was resumed in large volume. Output of crude petroleum continued to advance in May and the early part of June. Metals production showed much less than the usual seasonal rise in May, reflecting chiefly wage disputes in iron ore mines which were largely settled by the end of the month.

Value of construction contracts awarded, as reported by the F. W. Dodge Corporation, continued to rise sharply in May, reflecting increases in awards for most types of construction. Residential building awards were at a new record level, one-fourth higher than in April. Awards for nonresidential construction advanced in May, after a drop in April. Awards for manufacturing plant and public works permitted by Federal authorities showed sharp increases.



Index of Physical Volume of Industrial Production, 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)

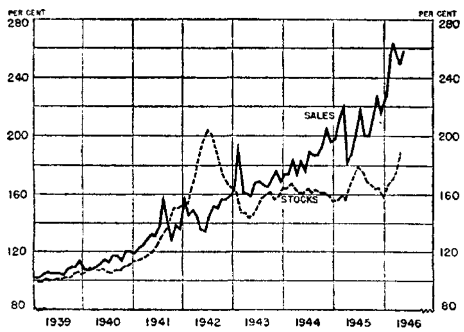
Employment

Nonagricultural employment showed a further substantial gain in May, reflecting increases at factories and mines due to termination of work stoppages and a continued large advance in construction employment. The number of persons unemployed remained unchanged at the April level of 2.3 million.

Commodity Prices

The general level of wholesale commodity prices continued to advance from the middle of May to the third week of June. There were important increases in prices of milk, bread, coal, cotton, leather, copper, and of a number of miscellaneous products.

From the middle of April to the middle of May the consumer price index advanced another one-half per cent and since that time additional increases have occurred in retail prices.

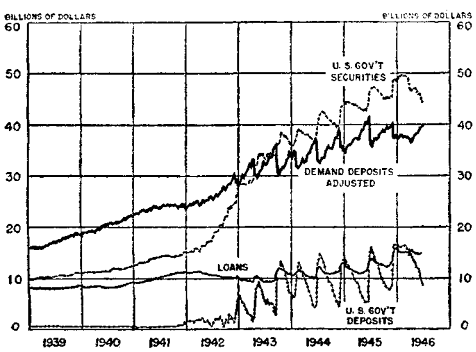


Indexes of Value of Department Store Sales and Stocks, Adjusted for Seasonal Variation (1935-39 average=100 per cent)

Distribution

Department store sales in May and the first half of June were maintained at the high level reached earlier in the spring. Value of sales was about 35 per cent larger than in the corresponding period last year, reflecting largely a considerable expansion in the volume of goods sold. Department store stocks continued to rise sharply in May and, after allowing for seasonal changes, the value of stocks held on May 30 was one-fourth larger than at the beginning of the year, although still comparatively low relative to the value of sales.

Freight carloadings during May were slightly below the April rate as increased shipments of coal and grain were more than offset by declines in loadings of most other classes of revenue freight due chiefly to the railroad strike. During the first three weeks of June carloadings increased sharply and in the week ended June 22 were as high as in the same period a year ago.



Member Banks in Leading Cities. Demand Deposits (Adjusted) Exclude U. S. Government and Interbank Deposits and Collection Items. Government Securities Include Direct and Guaranteed Issues (Latest figures are for June 19)

Bank Credit

Deposits subject to reserve requirements increased further in May and the first three weeks of June, reflecting primarily a shift of about 3.5 billion dollars from Treasury War Loan accounts to accounts held by businesses and individuals, and average required reserves increased about 500 million dollars. Reserve balances increased considerably less than required reserves and excess reserves declined.

At member banks loans for purchasing and carrying Government securities were further reduced in May and the first half of June. Real estate and commercial and industrial loans continued to increase at banks outside New York City. Bank holdings of Treasury certificates and bonds declined largely as a result of Treasury debt retirement operations.