

Monthly Review



FEDERAL RESERVE BANK OF SAN FRANCISCO

DECEMBER 1, 1942

THE United States has been at war a year. Mobilization of human and material resources for war purposes has advanced far during this time. The full meaning of this rapidly forming "war economy" has not yet reached home to all people, but its implications are fast becoming more concrete in the work and home life of every citizen. To some it means long hours of work in war industries at excellent rates of pay; to others it means the necessity of changing occupations; to still others it means the serious impairment of established business enterprises; to others it means the building up of thriving new business enterprises engaged in war work.

To all alike, whether service man or civilian, the new "war economy" entails a necessity for accepting restrictions upon individual freedom in varying degree. For civilians, there are restrictions upon spending and prescriptions as to terms of payment for a long list of commodities; there is a growing list of goods subject to rationing; and many other forms of governmental restraints upon accustomed freedom of action are already in force or contemplated.

In the broader sense, these positive governmental directives reflect the necessities involved in developing war production to the utmost, and in sending men and material to a world-wide battlefield. Part of the story is being told in terms of tremendous expansion of some industries, and part of it is being told in terms of economic disruption; but through the entire scene runs the thread of government action, under the necessities of war, reaching far down into the lives of individuals in order to organize and equip the nation for a life or death struggle.

Revival in Twelfth District Shipbuilding

Return of shipbuilding on the Pacific Coast to the status of a giant industry is illustrative of the marked expansion of productive activity in the Twelfth District.

Since the first of the year, district yards have delivered more than 250 cargo vessels, and have been active as well in the repair and construction of naval units. Deliveries of cargo vessels during the first 10 months of the year were approximately 10 times those made in all of 1941.

This expansion in construction of ships reflects an increase in the number of shipways in use and also a significant and persistent shortening in the average period of time required to complete a cargo vessel. One yard now building Liberty ships completed its first ship in October, seven months after work first started on the yard itself. The 146 Liberty ships delivered by four other district yards in the first seven months of 1942 required an average of 130 days from keel-laying to delivery. This period was reduced to 65 days for 30 ships delivered by the same yards in August, to 58 days for 37 ships delivered in September and to 52 days for 41 ships delivered in October. In this latest month, one yard of the four delivered 12 ships built in an average of 41 days.



Expansion in Steel Production Facilities

The local shipbuilding industry, despite the high priority ratings accorded its requirements, has been faced with an almost chronic shortage of materials, principally of steel. This, of course, has been a result of the marked expansion of shipbuilding at a time when requirements of other war industries were also increasing. The shortage will be alleviated somewhat during the first quarter of 1943 when a new steel plant in southern California is scheduled for completion. Units now under construction have a capacity for producing 450,000 tons of ingots annually, and for rolling 300,000 tons of plates. They will add about 35 percent to present capacity of the district steel-producing industry. On November 3, the RFC announced an additional loan of 26 million dollars for enlarge-

WAR FINANCE IN DECEMBER

In December alone, the United States Treasury has to borrow \$9,000,000,000, over one-third the entire amount borrowed during the last World War. Every individual American and every American corporation should purchase Government securities to the limit of their ability. For complete details as to the securities offered this month, see any Bank, Investment Dealer, Securities Broker, or member of the Victory Fund Committee.

★ ★ ★ ★ SUPPORT YOUR GOVERNMENT—THE TWELFTH DISTRICT MUST DO ITS SHARE ★ ★ ★ ★

ment of the plant to an ultimate ingot capacity of 675,000 tons annually. In Utah, facilities for producing 1,230,000 tons per year have been under construction for some months. Completion of facilities now under construction or definitely scheduled represent a tripling of the capacity of the Twelfth District steel-producing industry.

Further Limitations on Use of Lumber

Although there exists some prospect for alleviation of the local deficiency in steel, shortages are becoming more acute in various other materials. For this reason, further action to direct the flow of scarce materials to the most essential uses has been necessary. One such instance is the WPB order (L-218) issued late in October directing that shipments of Douglas fir lumber, produced in this country largely in the Pacific Northwest, be limited to or for the account of the army procurement office or contractors and other persons designated by that office. Despite the fact that Douglas fir has been termed the most critical species of lumber in the United States for war purposes, the daily average cut, apart from small fluctuations, has been unchanged since last March. Both total lumber production and output of Douglas fir in the district during the three months ending in October have been moderately below a year earlier. An important factor in this year-period decline has been the shortage of loggers, discussed at length in the October issue of this Review.

Curtailed in Pacific Coast Pulp Production

With lumber output falling well behind demand, efforts to ease one factor limiting production, the shortage of logs, have led to the diversion of pulpwood logs to sawmills. This, together with curtailed imports of Canadian pulpwood and labor shortages affecting the industry, has resulted in a reduction of wood pulp production in the Puget Sound area. On October 26 the WPB ordered the cessation of pulp shipments to the East, except for essential nitrating (ordnance), rayon, and photo-

graphic uses, and the cessation of other shipments except for paper production in the far west and for Lend-Lease. Also, logs were ordered withheld from three pulp mills located in the area covered by the order and, later, 14 additional mills were notified that a further diversion of logs from pulpmaking to lumber uses could be expected.

Stoppage of Construction on Hydroelectric Projects

Necessity for distributing available materials among first uses, judged in terms of their immediate contribution to the war, led the WPB on October 28 to revoke priority ratings and to prohibit certain construction on the five district hydroelectric power projects listed below:

| Name of Project | Location | Type of Construction Stopped | Net Loss in Potential Generating Capacity |
|----------------------|------------|------------------------------|---|
| Davis Dam | Ariz.-Nev. | Entire project | 225,000 K.W. |
| Keswick Dam | California | Entire project | 75,000 K.W. |
| Anderson Ranch Proj. | Idaho | Entire project | 27,000 K.W. |
| Shasta Dam | California | 1 power plant unit | 75,000 K.W. |
| Grand Coulee Dam | Washington | 3 power plant units | 174,000 K.W. |

Construction on these projects had been permitted to continue on a low priority basis for several months prior to the stoppage order, but it was understood that as material shortages became more critical drastic action would be taken.

Expansion and Shift in Demand for Petroleum Products

The California petroleum industry is also encountering problems in meeting the demands of the war economy. Since June, the over-all demand for petroleum products has been at record levels despite the loss of the previously important Japanese market and an appreciable decline in civilian consumption of gasoline. Were the distribution of this demand among the several products unchanged from the pre-war pattern, there would be little problem in meeting it. Demand is not so distributed, however, and as a result the problem of the industry in recent months has been that of producing adequate amounts of the types of products to which demand has shifted.

The shift has been mainly to heavy fuel oil, largely a residual product of the refining process. During the first 10 months of 1942, demand for this product totalled 105 million barrels, 21 percent higher than a year earlier. In this period, net refined production amounted to 77 million barrels, indicating a difference of 28 million barrels to be met from other sources. Substantial withdrawals have been made from stocks, and output of wells producing crude petroleum usable in its original state as heavy fuel oil has been increased. Some relaxation in WPB regulations on the drilling of new and the maintenance of old wells was announced in October to encourage production of crude yielding a high proportion of fuel oil.

Women in Industry

Under the driving urge for more production of the means of waging a successful war, shortages have developed not only in materials but in manpower as well.

Production and Employment—

| Index numbers, 1923-25 average=100 | With Seasonal Adjustment | | | | Without Seasonal Adjustment | | | |
|--|--------------------------|-------|------|------|-----------------------------|-------|------|------|
| | 1942 | | 1941 | | 1942 | | 1941 | |
| | Oct. | Sept. | Aug. | Oct. | Oct. | Sept. | Aug. | Oct. |
| Industrial Production ¹ | | | | | | | | |
| Lumber ² | p145 | 139 | 136 | 149 | p157 | 162 | 163 | 161 |
| Refined oil | | | | | p188 | 194 | 184 | 184 |
| Cement | 182 | 214 | 203 | 169 | 210 | 226 | 226 | 195 |
| Wheat flour | 97 | 99 | 117 | 97 | 116 | 118 | 117 | 115 |
| Petroleum | | | | | p110 | 110 | 110 | 99 |
| Electric power | p334 | p329 | r318 | 273 | p333 | p344 | r349 | 272 |
| Factory Employment and Payrolls ³ | | | | | | | | |
| Employment | | | | | | | | |
| Pacific Coast | p298 | p289 | 283 | 196 | p311 | p302 | 292 | 205 |
| California | 332 | 326 | 324 | 237 | 348 | 338 | 334 | 248 |
| Oregon | p260 | p260 | 245 | 150 | p270 | p281 | 255 | 156 |
| Washington | p248 | p230 | 220 | 139 | p258 | p242 | 227 | 144 |
| Payrolls | | | | | | | | |
| Pacific Coast | p496 | p486 | 456 | 256 | p524 | p505 | 480 | 271 |
| California | 539 | 535 | 505 | 307 | 566 | 544 | 525 | 323 |
| Oregon | p440 | p426 | 410 | 200 | p471 | p473 | 455 | 214 |
| Washington | p434 | p413 | 378 | 178 | p464 | p438 | 397 | 191 |

¹Daily average.

²Converted to 1935-39 base. Back figures will be supplied on request.

³Excludes fish, fruit, and vegetable canning.

p Preliminary.

r Revised.

Women have been drawn into industry on a substantial scale in recent months. In September, the latest month for which data are available, the number of *male* wage earners employed in California manufacturing industries underwent the first decline since the outbreak of war. Employment of *female* wage earners, on the other hand, increased sharply further to a new high of 144,500, of whom 42,600 were employed in the aircraft industry. In nondurable goods industries, including the highly seasonal fruit and vegetable canning industry, 85,100 women were employed in September, compared with 50,000 in April.

Consumer Goods Shortages

Department stores carry a wide variety of consumer goods and behavior of sales of these stores is indicative of a broad segment of retail trade. For the fifth consecutive month, value of sales of department stores in the Twelfth District increased in October, after adjustment for seasonal influences, and were 32 percent higher on a daily average basis than in October 1941. Over-all stocks of these firms continue large, showing a year-period gain at the end of the month of 21 percent. In September and October, however, total department store inventories declined markedly, contrary to the usual seasonal increase.

Although over-all stocks of consumer goods are apparently still substantial, the range of commodities available to consumers is becoming progressively narrower. Moreover, in the case of an increasing number of items, the quantities which may be purchased during a period of time are subject to restriction. Gasoline and coffee have now joined sugar on the list of formally rationed consumer items in daily use. Informal rationing at the consumer level of a number of other common items, including some dairy products and meats, has been instituted in various localities of the district in November.

Farm Production Goals of Essential Foods in 1943

Production of most foods in the United States during the current year has exceeded all prior records. For the year as a whole it is estimated that output, in the aggregate, will be up some 10 percent over a year earlier and will be about 25 percent higher than the 1935-39 average. Considerable shifts in production of foodstuffs took place in 1942 under the program of production goals set up by the United States Department of Agriculture and further shifts will be encouraged in 1943.

Little if any increase—perhaps a reduction—in the over-all farm production of foods may be expected in 1943. With demand for some food products already outstripping or threatening to outstrip supply, it is more than ever necessary to encourage production of the foods most needed at the expense of less essential products.

Nutritive value relative to bulk is the primary factor in the determination of “essentiality” of agricultural products in war time. Production goals for 1943 call for still further increases in the items stressed in the 1942 goals, such as dry beans and peas, milk and eggs, meats

and potatoes. Representatives of the United States Department of Agriculture, organized into state and county war boards, are currently engaged in assembling information for use in establishing state and county breakdowns.

Goals for winter vegetables, of interest primarily in California, Arizona and certain southern states have been released. They call for an increase of 30 percent in the acreage of carrots, 25 percent in lima beans, and 15 percent in both snap beans and onions. About the same acreages as a year earlier of cabbage, tomatoes, beets, and spinach have been called for, while decreases are suggested in acreages of cauliflower, cucumbers, cantaloupes, celery, eggplant, watermelons, lettuce, green peppers, artichokes, and asparagus. Lettuce growers in the Imperial Valley of California had completed in large part their plantings of lettuce prior to announcement of the goal for this crop, and reports indicate that only where stands are poor have they shifted crops. Growers in the Salinas Valley have stated they plan to replace considerable acreages usually planted to lettuce with sugar beets, onions, and carrots. Strawberry acreage in the three Pacific Coast states in 1943 will be considerably below that of 1942. Current estimates indicate that 17,100 acres will be devoted to this crop against 25,120 in 1942.

Aid to Farmers Producing Essential Products

The war effort has drawn heavily upon farm labor, has limited the availability of transportation facilities for moving farm crops, and has restricted the production and availability of farm implements. Various steps, however, have been taken to relieve shortages of manpower and producing, processing, and distributing facilities in order to encourage the maintenance or expansion of production of essential farm products. The November 13 amendment to the Selective Service Act provided for the deferment of men found by local boards to be “necessary to and regularly engaged in an agricultural occupation.” Currently farmers must possess certificates of need to purchase many farm implements and among the considerations determining the granting of these certifi-

Distribution and Trade—

| Index numbers, 1935-39 daily average=100 | With Seasonal Adjustment | | | | Without Seasonal Adjustment | | | |
|--|--------------------------|-------|------|------|-----------------------------|-------|------|------|
| | 1942 | | | 1941 | 1942 | | | 1941 |
| | Oct. | Sept. | Aug. | Oct. | Oct. | Sept. | Aug. | Oct. |
| Retail Trade | | | | | | | | |
| Department store sales (value) | | | | | | | | |
| Twelfth District | p182 | 176 | 172 | 138 | p191 | 184 | 158 | 145 |
| Southern California | p177 | 171 | 166 | 146 | p179 | 176 | 155 | 147 |
| Northern California | p167 | 165 | 151 | 124 | p172 | 164 | 139 | 128 |
| Portland | p200 | 180 | 180 | 136 | p212 | 204 | 173 | 143 |
| Western Washington | p229 | 213 | 217 | 159 | p240 | 238 | 204 | 166 |
| Eastern Washington and Northern Idaho | p145 | 171 | 168 | 109 | p198 | 193 | 152 | 150 |
| Southern Idaho and Utah | p193 | 177 | 196 | 139 | p224 | 193 | 164 | 162 |
| Phoenix | p196 | 206 | 228 | 132 | p213 | 180 | 159 | 144 |
| Automobile sales (number)¹ | | | | | | | | |
| Total | — | — | — | — | .. | 14 | 14 | 79 |
| Passenger | — | — | — | — | .. | 14 | 14 | 69 |
| Commercial | — | — | — | — | .. | 24 | 23 | 184 |
| Carloadings (number)¹ | | | | | | | | |
| Total | p107 | 112 | 107 | 100 | p126 | 129 | 123 | 118 |
| Merchandise and misc. | p113 | 118 | 116 | 114 | p137 | 140 | 130 | 138 |
| Other | p100 | 104 | 95 | 82 | p113 | 116 | 115 | 92 |

¹1923-25 daily average = 100. p Preliminary.

cates is the essential character of the products raised. The announcement of winter goals by the Department of Agriculture indicated that further steps are contemplated to shift needed labor, materials, farm machinery, and transportation facilities to the production of essential farm products.

Farm Price Ceiling Legislation

Under the terms of the amendments to the Emergency Price Control Act of 1942 approved on October 2, price ceilings for farm products cannot be established below parity or below the highest market price between January 1 and September 15, 1942, whichever is higher. If such ceilings do not adequately reflect increases in farm labor and other costs since January 1, 1941, the President is directed to raise them. The amendments also provide for loans to farmers at 90 percent of parity on cotton, corn, wheat, rice, tobacco, and peanuts, thereby effectively placing "floors" under prices of these crops. In the case of wheat and corn, however, the loan rates may be held at 85 percent of parity when, in the discretion of the President, this is necessary to prevent increases in prices of feed for livestock and poultry.

Current Federal Budget Estimates

Problems and developments in finance, as in industry and agriculture, are dominated by war requirements. Budget receipts of the Federal Government for the current fiscal year ending June 30, 1943 are expected to exceed the 13 billion dollars obtained during the previous fiscal year by more than 60 percent. The Revenue Act of 1942, approved on October 21, is expected to provide some 4 billion dollars in the present fiscal year and about 7 billion in a full year's operation. Receipts of 21 or 22 billion dollars, however, will not meet more than about 25 percent of estimated expenditures. The estimate of expenditures was raised by 22 billion dollars to 85 billion early in October when the figures presented in the President's January budget report were revised. On the basis of those estimates, the total Government debt, direct and guaranteed, will increase by 63 billion dollars to 140 billion dollars by the end of June 1943. Three billion dollars will be provided by Government agencies and trust funds, but 60 billion dollars will have to be borrowed from individuals, banks, and other institutions. In the first four months of the current fiscal year, July 1 to October 31, the interest bearing public debt increased 20.4 billion dollars.

Increased Bank Investments in Government Securities

It is against the background of fiscal requirements of the Federal Government that the recent major changes in bank earning assets and deposit liabilities must be interpreted.

In the first three months of the current fiscal year, commercial banks in the United States absorbed about 6 billion dollars of the increase of 14 billion dollars in the interest bearing public debt, expanding their investments in Government securities by about 24 percent to

a total of over 32 billion dollars. Federal Reserve banks added 900 million to their holdings of Governments. Of the remainder of the increase in the public debt, 800 million went to Federal agencies and trust funds, and 6 billion dollars went to mutual savings banks and non-bank investors, including individuals, corporations, and trusts. Of this figure of 6 billion, 1.5 billion was accounted for by net sales of Series E War Savings Bonds to individ-

Banking and Credit—

| Averages of Wednesday figures (millions of dollars) | 1942 Nov. | Change From | | |
|--|--------------|--------------|---------------|--------------|
| | | 1942 Oct. | 1942 Sept. | 1941 Nov. |
| Condition Items of Weekly Reporting | | | | |
| Member Banks | | | | |
| Total loans..... | 1,031 | -2 | -12 | -126 |
| Commercial, industrial, and agri- | | | | |
| cultural loans | 474 | +5 | +9 | -24 |
| Open market paper..... | 13 | +1 | +1 | -13 |
| Loans to finance securities trans- | | | | |
| actions | 39 | +1 | 0 | -10 |
| Real estate loans..... | 364 | -4 | -7 | -24 |
| All other loans..... | 141 | -5 | -14 | -56 |
| Total investments..... | 2,190 | +92 | +265 | +769 |
| United States Government securities. | 1,887 | +96 | +261 | +806 |
| All other securities..... | 303 | -4 | +5 | -37 |
| Adjusted demand deposits..... | 1,985 | +113 | +182 | +502 |
| Time deposits..... | 1,108 | +1 | +11 | +18 |
| Coin and Currency in Circulation | | | | |
| Total (changes only)..... | — | +67 | +133 | +581 |
| Federal Reserve notes of F.R.B. of S.F. | 1,187 | +65 | +135 | +550 |
| Member Bank Reserves..... | 1,217 | +73 | +77 | +255 |

uals and 1 billion by net sales of Series F and G War Savings Bonds to individuals, corporations, and trusts.

During this same quarter, member banks in the Twelfth District increased their investments in Governments by approximately 900 million dollars, or over 40 percent, to an estimated total of 2.9 billion. Relatively, the district increase was noticeably greater than that for all commercial banks in the country as a whole. In the succeeding seven weeks, through November 18, district member banks added approximately 100 million dollars further to their holdings of Government securities. In contrast to the large expansion in investment holdings, loans of these banks have declined persistently in recent months.

Effect of Bank Purchase of Securities Upon Deposits

Net additions to bank portfolios of loans or investments increase deposits. A simple example will illustrate the point. A bank pays for its allotment in a new issue of Government securities by authorizing the Federal Reserve bank of its district to debit its reserve balance carried with that Federal Reserve bank and to credit the account of the Treasury. Outstanding deposit liabilities of the purchasing bank are in no way affected. When the Treasury disburses the funds they are received by the public and in large part are promptly deposited, but not necessarily with the same bank that created them by purchase of the securities, or with banks in the immediate vicinity. Somewhere in the country, however, deposits are increased.¹ In contrast, when a customer

¹A bank may make payment by war loan deposit account, i.e. by crediting a special deposit account of the Treasury on its books. Subsequent calls on this deposit lead to its transfer to the Treasurer's general account with the Federal Reserve bank. The final effect upon reserves and deposits of the banking system is identical to that described above.

of a bank buys a security, no deposits are created. The customer pays for the security with a check drawn on his deposit account and there is consequently a transfer of deposits to the Treasury. As a result, disbursements by the Treasury of funds obtained in this way merely restore deposits, and no net increase in the money supply occurs.

From June through October, daily average net demand and time deposits of member banks in the United States increased approximately 6.5 billion dollars to 61 billion. Almost all the increase (6.1 billion) took place in demand accounts. Deposits of district member banks increased by 920 million dollars to 6.5 billion. The relative increase since June amounted to 16 percent for the district, compared with an increase of 11 percent for the United States.

The rise in bank investments has not been the only factor bearing upon changes in deposits. Large and frequent Treasury transfers of funds to this district from other parts of the country and their disbursement locally have been another major influence contributing directly to the increase in deposits. At the same time, however, deposits have been drawn upon heavily by customers of local banks to make net payments outside the district and have also been drawn upon to meet increasing local demands of the public for currency. But these three factors are not of the same level of significance as the increase in bank investments. Treasury transfers of funds to this area swell deposits locally, and interdistrict payments for the accounts of bank customers result in a net outflow of funds that draws off local deposits. In both cases, however, the transactions merely represent inter-regional shifts in deposits and do not affect total deposits in the country as a whole. Withdrawals from deposits to provide cash for hand-to-hand circulation, moreover, merely represent a conversion from one type of circulating medium to another. From a national standpoint, the major factor in the recent expansion of the money supply has been and continues to be the increase in bank holdings of Government securities.

Urgency of Non-Bank Purchases of Government Securities

An expanding supply of money in the hands of the public, *were it to be spent as received for a shrinking volume of civilian goods*, would seriously disturb the entire price structure and hamper the war effort. Such a situation could be met effectively only by arbitrary restrictions upon expenditure through comprehensive rationing. The only alternative to this possibility is the diversion of existing funds on a large scale from the

public to the Government. This diversion can be accomplished in two ways—by taxation and by the purchase of Government securities on the part of non-bank buyers. Taxes have been increased substantially but by no means enough to cover the cost of the war effort. It is of the greatest importance, therefore, that non-bank buyers extend their purchases of Government securities to the utmost.

Regardless of the expansion in money supply resulting from the effect of commercial bank purchases of securities, the difference between the Treasury's requirements and whatever is obtained from non-bank sources must be obtained from the banking system. Of the 60 billion dollars which it is estimated the Treasury needs to borrow from the public during this fiscal year, 14 billion had been raised through September. More than 40 percent was loaned by commercial banks and there is no doubt that further large purchases of Government securities will have to be made by those institutions. The Federal Reserve System has taken action to assure that the banks may have the reserves necessary to make these purchases and to support the resulting increase in deposits.

Recent Federal Reserve Policy

In recent months the System has made substantial open-market purchases of Government securities. From June 30 through November 18, holdings of such securities have increased by 2 billion dollars. In September and October the Board of Governors of the Federal Reserve System ordered three successive reductions in reserve requirements against demand deposits of central reserve city banks in New York City and Chicago, lowering them from 26 to 20 percent.

Fuller utilization of existing reserves and a wider distribution of securities to member banks have been encouraged by two recent steps. First, the System has adopted the policy of purchasing, under a repurchase agreement, all Treasury bills offered by banks at a discount of 0.375 percent. Second, all Federal Reserve banks in October reduced their discount rates from 1 to 0.5 percent on notes of member banks secured by Government obligations maturing in one year or less. These two steps reduce the necessity of a bank maintaining a relatively wide margin of excess reserves to provide for an unexpected need for funds, since they permit Treasury bill holdings to be converted into cash or reserves immediately at a specified minimum price, and permit borrowing on approved securities at an unprecedentedly low rate.

Summary of National Business Conditions

Released November 23, 1942—Board of Governors of the Federal Reserve System

INDUSTRIAL output expanded further in October and the first half of November. Retail food prices continued to advance while prices of other commodities generally showed little change. Distribution of commodities to consumers was maintained in large volume.

PRODUCTION

Industrial production continued to advance in October and the Board's seasonally adjusted index rose 3 points to 188 percent of the 1935-39 average. Gains in armament production accounted for most of the increase, and it is estimated that currently well over 50 percent of total industrial output is for war purposes. In lines producing durable manufactures, approximately 80 percent of output now consists of products essential to the war effort.

Steel output reached a new high level in October as production expanded to 100 percent of rated capacity. In the first half of November output declined slightly to around 99 percent, reflecting some shutdowns for furnace repairs, according to trade reports. Activity in industries producing nondurable goods declined less than seasonally in October. Production of foods, especially canning, was unusually large for this time of year and output of textiles continued at a high level. Mineral production, which usually increases in October, declined slightly this year owing chiefly to a decrease in coal production which had been maintained in large volume throughout the summer.

Value of construction contracts awarded in October increased somewhat over that of September, according to reports of the F. W. Dodge Corporation. Publicly-financed projects continued to account for over 90 percent of total awards.

The Department of Commerce estimates that, in the third quarter of 1942, expenditures for new construction amounted to 4.2 billion dollars, of which 3.5 billion came from public funds. For the first nine months of this year the corresponding figures were 10.2 and 7.7 billion dollars. Construction of military and naval facilities and of industrial buildings accounted for the bulk of the expenditures.

DISTRIBUTION

Department store sales increased in October and the Board's seasonally adjusted index rose to 129 percent of the 1923-25 average as compared with 123 in September and 130 in August. In the first half of November sales increased further and were 17 percent larger than in the corresponding period last year, reflecting in part price advances of about 10 percent.

Railroad shipments of freight were maintained in large volume during October and declined seasonally in the first half of November.

COMMODITY PRICES

Retail food prices continued to advance sharply from the middle of September to the middle of October and further increases are indicated in November. Prices of most other goods and services increased slightly in this period. In the early part of October maximum price controls were established for a number of additional foods. Maximum price levels for many other food products have been raised, however, and the Office of Price Administration reports on the basis of a recent survey that in numerous instances sellers are not complying fully with the regulations now in effect.

BANK CREDIT AND GOVERNMENT SECURITY MARKETS

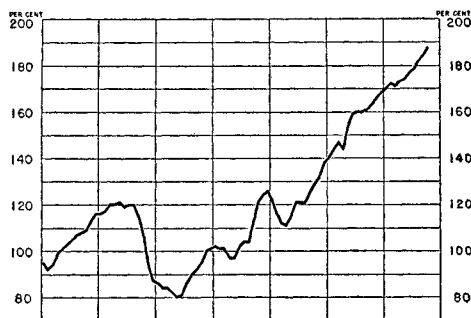
Excess reserves of member banks were 2.5 billion dollars in the middle of November, a somewhat higher level than generally prevailed in the preceding four months. At New York City banks excess reserves amounted to about 500 million dollars.

Additions to member bank reserve balances during the four weeks ending November 18 were the net result of an increase of 500 million dollars in Reserve bank holdings of Government obligations, which approximately covered the continued heavy currency drain, and a decrease of 200 million in Treasury balances at the Reserve banks.

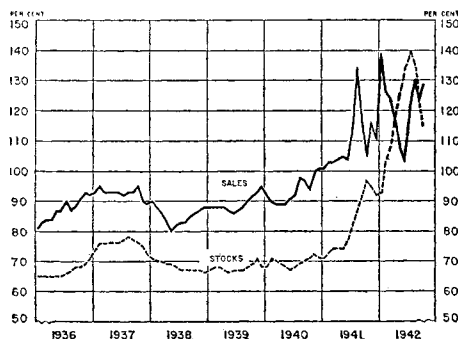
Holdings of Government securities by reporting banks in 101 cities increased by 1.9 billion dollars to 24 billion during the four weeks ending November 11. Almost half of the increase occurred at New York City banks. There were substantial increases in holdings of Treasury notes, bonds, and certificates, and a smaller increase in Treasury bills, while holdings of guaranteed obligations declined. These changes reflected new offerings and retirements by the Treasury during the period.

Commercial and industrial loans at reporting member banks in leading cities increased somewhat during the first two weeks of November. Brokers' loans in New York City increased around Government financing dates, but subsequently declined.

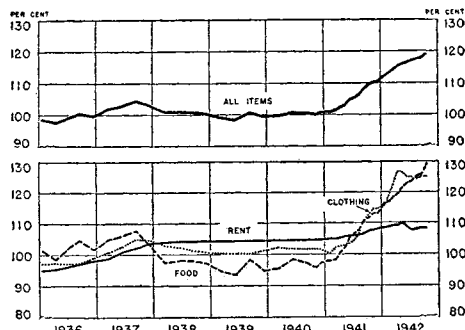
Prices of United States Government securities were steady in the four weeks ending November 18. Long-term taxable bonds yielded 2.32 percent, and 3-month Treasury bills sold at a yield of 0.37 percent.



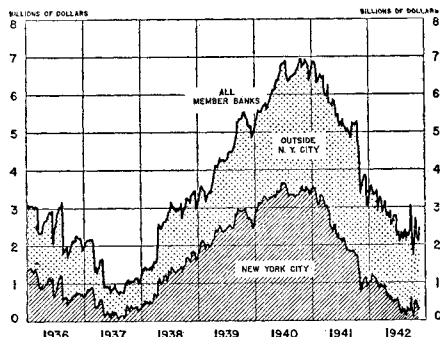
INDUSTRIAL PRODUCTION
Federal Reserve monthly index of physical volume of production, adjusted for seasonal variation, 1935-39 average=100. Latest figure shown is for October 1942.



DEPARTMENT STORE SALES AND STOCKS
Federal Reserve monthly indexes of value of sales and stocks, adjusted for seasonal variation, 1923-25 average = 100. Latest figures shown are for October 1942.



COST OF LIVING
Bureau of Labor Statistics indexes, 1935-39 average=100. Fifteenth of month figures. Last month in each calendar quarter through September 1940, monthly thereafter. Latest figures shown are for October 1942.



EXCESS RESERVES OF MEMBER BANKS
Wednesday figures, partly estimated. Latest figures shown are for November 11, 1942.