

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date July 12, 1937

To Chairman Eccles

Subject: _____

From Woodlief Thomas

W. T.

In connection with your usual Treasury meeting.

CONFIDENTIAL

Cc. 34
July 12, 1937

CURRENT COMMENTS
(Preliminary)

Diminished gold movement

The continued shrinkage of gold offerings on the London market and the tendency of funds to move to France resulted in a diminished movement of gold to this country last week. Less than \$30,000,000 appears to have been shipped to this country or acquired abroad by the Treasury, compared with about \$40,000,000 in each of the two previous weeks and \$100,000,000 in a single week early in June when gold hoarding was at its height. On only one day last week were American takings at all substantial. This was on Thursday when publication of the Bank of France's gold losses for the week ending July 1 proved disturbing to the market and temporarily there was selling pressure against the franc. A third of the gold moving to the United States during the week came from India, Canada, and Japan.

Excess reserves

During the statement week ended July 7, excess reserves of member banks increased slightly to a total of \$880,000,000. There was a decrease in total reserves held, but as a result of a substantial decline in deposits at central reserve city banks, required reserves were reduced. A further increase in excess reserves is anticipated during the current statement week ending July 14, reflecting chiefly the return of currency from circulation following the July 4 holiday.

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Reporting member banks

Adjusted demand deposits at reporting member banks declined by \$330,000,000 in the week ending July 7 and United States Government deposits by \$70,000,000. Most of the decline occurred at New York City banks. In view of the fact that the decline in deposits was larger than can be accounted for by currency withdrawals and the decrease in bank loans and investments, that interbank deposits at reporting banks increased in the week, while balances due from banks decreased, and, that the loss of reserves at New York banks was larger than the decline for all member banks, it appears that there were substantial shifts of funds from reporting banks in leading cities to non-reporting banks.

Total loans and investments of reporting banks decreased by \$73,000,000 during the first week of July, reflecting a small decline in holdings of Government obligations, a decrease of \$30,000,000 in other securities, and a decline of \$20,000,000 in loans to brokers. Loans to brokers had increased by more than \$100,000,000 during June.

Government security market

Treasury bonds and notes advanced somewhat during the past week. The average yield on the longer-term issues declined to 2.62 percent as compared with 2.65 percent on Saturday of the previous week, and the yield on 3-5 year notes declined to 1.48 percent from 1.53 percent a week earlier.

Bond market

Corporate bond prices continued to advance last week, with lower-grade rails showing a gain of about $1\frac{1}{2}$ points. Moody's average of Aaa bond yields was 3.27 percent on Friday, as compared with 3.28 percent a week earlier, and the Baa average declined to 4.95 percent from 5.05 percent. For the first time since the beginning of June, average yields of municipal bonds showed a decline.

Stock market

During the week ending July 10, the stock market was more active than it has been for more than two months, with average daily sales approximating 1,100,000 shares. The general level of stock prices advanced further, and at the end of the week the daily Standard Statistics Index for 90 issues was about 7 percent above the low for the year, reached about two weeks ago.

Prices of British stocks in London, after declining to a new low for the year on July 5, increased during the rest of the week by about 1.5 percent.

Foreign buying of American stocks

Immediately following the Fourth of July holidays foreigners turned buyers of American stocks in moderate amounts. Last Friday, however, there were net sales and on Saturday the buying was inconsiderable.

The most persistent purchasers during the week were the Dutch. The French, with one exception, have sold American securities on balance every business day since June 26.

New capital issues

New security issues last week were very small again after several weeks when they were in larger volume than the weekly average for 1936. Except for \$36,300,000 of six- and nine- month Federal intermediate credit bank debentures, there were only about \$3,000,000 of issues last week. Although registrations of new corporate issues are expected to increase, there are at present few sizeable issues in registration. Life insurance companies are reported to have been active purchasers of seasoned medium-grade bonds of late.

Wholesale commodity prices

Prices of steel scrap, zinc, tin, hides, silk, and print cloths have advanced somewhat during the past ten days and grains and cotton are also higher.

Industrial production

Volume of industrial production, as measured by the Board's index, declined from May to June and preliminary figures indicate a seasonally adjusted index of around 115 percent of the 1923-1925 average as compared with 118 in each of the three preceding months. The decline reflected chiefly a reduction in activity at steel mills as strikes restricted output at plants of four large producers. Early in July many of the closed plants were reopened and it is reported that the volume of orders on the books of these and other companies will maintain steel output in July, although a decline is usual in this month.

Another special circumstance contributing to the decline in the volume of industrial production in June was a further considerable decrease in sugar meltings following the large volume of refining in March and April and reflecting uncertainties as to the enactment of legislation concerning the processing tax on sugar. Changes in the rate of output in most other manufacturing industries and at mines were largely seasonal in character with activity continuing at a level considerably higher than a year ago. Estimates of automobile production and of cotton consumption in June indicate about the usual seasonal decline from May, while at silk mills activity declined less than seasonally and at meatpacking establishments output increased somewhat.

Building

Value of construction contracts awarded in June was considerably larger than in May, reflecting a marked increase in contracts for public projects and smaller increases in awards for residential and other private building.

Distribution

Department store sales showed a seasonal decline in June, and the Board's seasonally adjusted index, which had increased sharply in the first ten months of 1936, continued at the level that has now been maintained for eight months.

Freight-car loadings declined somewhat in June, reflecting largely a decrease in shipments of miscellaneous freight.

Agriculture

The July 1 cotton report of the Department of Agriculture shows a somewhat smaller than expected increase in acreage over that planted last year. The planted area of 34,192,000 acres is larger than in any year since 1933, and compares with an average of 41,424,000 acres in the five years 1928-1932.

Reports on other major crops indicate production above that of recent drought years and about equal to the average for 1928-1932. The corn crop is forecast at 68 percent more than last year's small crop, and an adequate total supply of feed crops is expected. The estimated wheat crop is 882,000,000 bushels, the largest since 1931, but rust damage is still threatening.