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BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

# Office Correspondence

Date October 25, 1937

To Chairman Eccles

Subject:

From Woodlief Thomas
W.T.

In connection with your usual Treasury meeting.

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CONFIDENTIAL

Cc. 49
October 25, 1937

# CURRENT COMMENTS
(Preliminary)

## Stock market

During the week ending October 23, movements of stock prices were wide and irregular. The volume of sales on the New York Stock Exchange increased to about 4,100,000 shares per average session, which is the largest since July 1933. On Tuesday there was the broadest market in the history of the New York Stock Exchange, when 1,046 issues were traded, and the volume of sales amounting to 7,300,000 shares was the largest for any single day since July 21, 1933.

There was a very sharp decline in stock prices on Monday of last week, but on Tuesday, after prices had first declined to still lower levels, they advanced very sharply to a level substantially above the close on Monday but still considerably below the close on the preceding Saturday. Thereafter prices advanced until Friday when they declined again and on Saturday there was another sharp downward movement. On Monday of this week there was a sharp recovery. According to the Standard Statistics Company daily index of 90 stocks, the net decline from the close on Saturday, October 16, to the close on Saturday, October 23, amounted to about 5 percent, which compares with a decline of 17 percent shown for the lowest level on Tuesday. At the close on Saturday stock prices had declined by about 40 percent from their peak in March, and were at the lowest levels since August 1935.

Prices of British stocks in London advanced somewhat during the week.

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Foreign buying of American stocks

After a week of heavy selling on the New York stock market and several days of hesitation, foreigners came in strongly on the buying side last week with the largest net purchases since early March. Purchases were substantial on Monday, when the most severe break in several years took place on the stock market. After reaching a peak during Thursday's continuation of Wednesday's sharp recovery in prices, the volume of net foreign buying dwindled to comparatively insignificant amounts as stocks closed lower.

Gold and capital movements

Again last week official sales of gold not publicly reported reduced the total amount of gold owned by the United States.* This reduction occurred in the face of substantial net purchases of American stocks by foreigners. Evidently the foreign withdrawal of private balances, which has been going on since the middle of September, was again in heavy volume. Foreign central bank reserves in this market, which at first had accumulated faster than private balances declined, also diminished somewhat last week.

The further return of capital to France last week was probably an important factor in the gold movement. The franc improved steadily on the exchange market and the French Fund is reported to have acquired additional quantities of gold. On Monday the 25th, however, the franc reacted under the influence of uncertainties regarding the approaching session of Parliament.

Withdrawal of short-term funds from this country has not been confined to the French. The prevalent fears regarding the future of business and prices in the United States, reflected in the stock market decline, appear

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to have led some foreigners -- particularly the Swiss -- to take cognizance of rumors of further devaluation. With short-term balances swollen to abnormal proportions by the inflow last spring, when gold dishoarding was under way, it does not take more than a moderate shift of sentiment to divert a portion of these funds into other markets. Apparently holders of dollar balances have been sufficiently disturbed by developments to begin transferring their funds abroad or, more recently, into American stocks -- particularly as it may turn out that these latter are now selling at bargain prices even without dollar devaluation.

Little change in excess reserves

Excess reserves increased $30,000,000 during the week ending Wednesday, October 20, to a total of $1,020,000,000. The seasonal return of money from circulation was largely responsible for the gain, which was reduced somewhat by the further increase in nonmember deposits at the Reserve banks, again resulting from special Treasury transactions. Through this channel loss of gold from this country's unreported holdings has the effect of reducing excess reserves.

New York banks, which had suffered a substantial loss of reserves during the first half of October, received funds from other sections of the country last week. On October 20 the excess reserves of New York banks stood at nearly $350,000,000 as compared with about $280,000,000 a week earlier. Excess reserves of Chicago banks have increased substantially in recent weeks and last week exceeded $60,000,000, compared with less than $50,000,000 earlier this month.

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Little change in excess reserves is expected in the current statement week ending October 27. The Treasury is again meeting its net expenditures by calls of $48,000,000 from special depositary banks. After these calls approximately $550,000,000 will remain at depositaries with an additional $90,000,000 at the Reserve banks.

Reporting member banks in leading cities

Commercial loans at reporting member banks in leading cities, which had been rising steadily since early August, showed a sizeable decline of $30,000,000 in the week ending October 20, nearly all of which occurred in New York City. Loans to brokers and dealers in securities decreased further, owing to a sharp drop in loans to brokers offset in part by an increase in loans to dealers. There was also a moderate decline in holdings of United States Government obligations.

Interbank balances of both domestic and foreign banks and United States Government deposits were again reduced, while other deposits showed little change.

Government security market

On Tuesday of last week following the announcement of the revised budget estimates, prices of Government securities declined sharply with the longer-term Treasury bonds off about 3/8 of a point. Prices recovered somewhat through Thursday but eased again on Friday and Saturday. Reflecting these price changes the average yield on long-term Treasury bonds was 2.67 percent on Saturday as compared with 2.64 percent on Monday and that on 3-5 year Treasury notes was 1.47 percent as against 1.42 percent.

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Bond market

After sharp declines of about $3\frac{1}{2}$ points on Monday and Tuesday, prices of medium and lower-grade corporate bonds recovered on succeeding days and then declined slightly on Saturday, at which time prices were at about the level of a week earlier. High-grade corporate bonds weakened slightly early in the week as the average yield rose from 3.29 to 3.32 percent, but subsequently recovered and on Friday were again 3.29 percent. Municipal bond prices, for which average figures are computed only on Wednesdays, also declined substantially last week. The total volume of bond transactions on the New York Stock Exchange was the largest last week of any week since early March, and was more than double the level which has prevailed in recent months.

A few small new security issues were offered for sale last week, totalling about $10,000,000. The only corporate issue was for $3,650,000 of railroad equipment trust certificates. Strong bidding was reported for these, and the issue was immediately resold to institutions.

Additional information regarding recent business and credit developments is given in the Board's national summary of business conditions to be issued this week. A copy of a preliminary draft of this summary is attached.

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NATIONAL SUMMARY OF BUSINESS CONDITIONS
(Preliminary draft)

Declines in industrial production in September and the first part of October reduced output to the level of a year ago. Number of persons employed showed little change, when an increase is usual, and payrolls declined sharply. Commodity prices decreased further, while the volume of distribution to consumers was sustained.

## Production

Volume of industrial production, as measured by the Board's seasonally adjusted index, declined in September to 111 percent of the 1923-1925 average as compared with 114 in June and July and 117 in August. At steel mills, where output in August had been at a high level, partly on the basis of orders placed earlier in the year, activity was reduced to an average rate of 75 percent of capacity in September. This decline continued in October, as new orders were in limited volume, and the rate of steel output in the fourth week of the month is estimated at about 52 percent of capacity. There were also considerable declines in September in activity at woolen mills, shoe factories, and at sugar refineries, and activity at cotton mills showed little change, although an increase is usual at this season. Increases in output were reported at silk mills and meat packing establishments where activity recently has been at an extremely low level. Automobile production showed a greater than seasonal decline from the high level of August, but in the first three weeks of October advanced sharply as most manufacturers began assembling 1938 models.

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Mineral output increased in September, reflecting an expansion in coal production. Output of crude petroleum declined somewhat but continued in large volume.

Value of construction contracts awarded, as reported by the F. W. Dodge Corporation, was smaller in September and the first half of October than in the preceding six weeks, with a moderate decline in private residential building and sharp declines in awards for other private work and for publicly-financed work. Currently the dollar volume of private work is about the same as a year ago, while awards for public work are in considerably smaller volume.

Factory employment showed little change from August to September, although an increase is usual at this season. There were declines in the number employed at textile mills, shoe factories, railroad repair shops, and lumber mills. At canning factories employment increased seasonally. Factory payrolls, which usually expand in September, declined substantially, reflecting principally a reduction in the average number of hours worked by those employed. The levels of employment and payrolls continued to be considerably above last year.

## Distribution

Distribution of commodities to consumers by department stores and mail order houses increased more than seasonally in September, and variety store sales showed about the usual seasonal expansion. Freight-car loadings increased slightly less than is usual from August to September.

## Commodity prices

The general level of wholesale commodity prices, according to the Bureau of Labor Statistics' index, declined from 87.5 percent of the 1926 average in the latter part of September to 85.2 in the middle of October.

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During that period price declines occurred in most commodities traded in on organized exchanges and in some manufactured products. In the ten days ending October 25, commodity markets remained steady. New models of automobiles are currently being introduced at higher prices.

Bank credit

Excess reserves of member banks, after increasing in the latter part of September from $750,000,000 to over $1,000,000,000, showed little further change in October.

Total loans and investments of reporting member banks in 101 leading cities declined substantially from the middle of September through October 20, reflecting chiefly the retirement of Treasury bills maturing in September and a steady reduction throughout the period in loans to security brokers and dealers. Commercial loans continued to increase.

Money rates and security prices

Rates on 9-month Treasury bills in October declined to about 3/8 of one percent, the lowest since last February, and average yields on Treasury notes also declined somewhat. Prices of high-grade bonds showed little change in September and October, while prices of lower-grade bonds and of common stocks declined sharply to the lowest levels since the middle of 1935.

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