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ADMINISTRATIVE MARKING
E.O. 12065, Section 6-102
by JR NARS, Date 8-23-05

File: 17.32

REPORT OF OPEN MARKET OPERATIONS TO MEETING OF OPEN MARKET POLICY
CONFERENCE HELD AT WASHINGTON, D. C., JULY 14, 1932

333,34

As reported to the last meeting of the Open Market Policy Conference held in Washington on May 17, 1932, the total holdings of United States Government securities in the System Special Investment Account on May 14, amounted to \$1,219,821,000. There remained an unexpired authorization for purchase of \$96,995,000.

At that meeting a resolution was adopted, and approved by the Federal Reserve Board, authorizing the executive committee of the Open Market Policy Conference to continue the purchase of government securities for the System Account up to a total of \$500,000,000 in addition to previous authorizations. The executive committee voted that approximately \$80,000,000 of government securities should be purchased in the statement week ending May 18, if available, and it was agreed that the amount of purchases in the following weeks should be determined from time to time by telephone. At a meeting of the executive committee on June 16, a proposal was made and agreed upon as follows: (1) that until further notice sufficient purchases of government securities should be made to keep excess reserves of member banks at a figure between \$250,000,000 and \$300,000,000; (2) that the System should continue to show an increase from week to week in total holdings of government securities; (3) that in the coming week it appeared that this purpose might be accomplished by smaller purchases, but at the end of June the Reserve banks should be prepared to do whatever was necessary to meet the situation.

Under the authority of May 17, purchases of government securities were made for System Account as follows:

For delivery - May 16 to May 18, inclusive (This amount together with \$4,500,000 purchased for delivery May 11 to May 14, reported to previous meeting, made a total of \$81,139,000 purchased during week ended May 18).	\$76,639,000
" " - Week ended May 25	58,520,000
" " - " " June 1	50,003,000
" " - " " " 8	69,500,000
" " - " " " 15	46,850,000
" " - " " " 22	38,250,000
" " - " " " 29	0
" " - " " July 6	30,000,000
" " - " " " 13	20,000,000
(see note on following page)	
	<u>\$389,762,000</u>

These purchases, which were made by the following Federal reserve banks in their respective markets,

Boston	\$ 1,500,000	Chicago	\$16,100,000
New York	359,740,000	St. Louis	200,000
Philadelphia	1,950,000	San Francisco	10,272,000

brought the amount of total holdings in the System Account up to \$1,609,583,000

NOTE: In the statement week ended June 29, the Federal Reserve Bank of Chicago purchased from its member banks \$41,515,000 government securities which it is retaining in its own investment account for the present, and as this increase in its holdings was reflected in the System Statement it was decided to show no net increase in System Special Investment Account.

Transactions effected in the System Account since May 14, other than new purchases of government securities, consisted of

(1)	<u>Redemptions</u>	<u>Replacements purchased in the market</u>
\$ 16,111,000-Treas.Bills due May 18, 1932	\$16,111,000-Treas.Bills due Aug. 17, 1932	
14,907,000- " " " " 25, 1932	14,907,000- " " " " 24, 1932	
50,087,000- " " " " June 1, 1932	50,087,000- " " " " 31, 1932	
36,550,000- " " " " 29, 1932	36,550,000-Various issues of C/I & T/N	
41,000,000- " " " " July 13, 1932	40,000,000-Treas.Bills due Oct. 11, 1932	
	1,000,000-3% T/N " May 2, 1934	
<u>\$158,655,000</u>	<u>\$158,655,000</u>	

(2) Exchange pursuant to Treasury offering dated June 6, 1932:

\$ 29,550,000-2 3/4% C/I due June 15, 1932 for \$14,775,000-1 1/2% C/I due June 15, 1933	
	14,775,000-3 % T/N " " 15, 1835
	<u>\$29,550,000</u>

(3) Exchanges in the market at advantageous rates

<u>Sold</u>				<u>Purchased</u>			
\$ 13,000,000-2	3/4% C/I due	June 15, 1932		\$ 442,000-Treas. Bills due	Aug. 31, 1932		
34,500,000-Treas. Bills	"	July 13, 1932		1,000,000-	"	"	Sept. 28, 1932
5,150,000-	"	Aug. 17, 1932		12,000,000-1	1/8% C/I	"	15, 1932
25,250,000-3	1/8% C/I	" 1, 1932		3,058,000-3	%	"	15, 1932
7,500,000-1	1/8%	" Sept. 15, 1932		1,000,000-3	1/8%	"	Oct. 15, 1932
1,000,000-3	%	" 15, 1932		5,200,000-3	1/4% T/N	"	Dec. 15, 1932
7,500,000-3	1/8%	" Oct. 15, 1932		1,950,000-3	3/4% C/I	"	Mar. 15, 1933
3,500,000-3	1/4% T/N	" Dec. 15, 1932		2,000,000-2	%	"	May 2, 1933
250,000-3	3/4% C/I	" Feb. 1, 1933		47,750,000-1	1/2%	"	June 15, 1933
2,500,000-3	3/4%	" Mar. 15, 1933		6,000,000-3	% T/N	"	May 2, 1934
1,000,000-2	%	" May 2, 1933		23,750,000-3	%	"	June 15, 1935
2,000,000-3	% T/N	" 2, 1934		11,500,000-4	1/4% 4th L/L Bds.		
6,500,000-3	%	" June 15, 1935					
6,000,000-3	1/2% 1st L/L Bds.						
<u>\$115,650,000</u>				<u>\$115,650,000</u>			

(4) Sales in the market of securities acquired under resale agreement and replacements by purchases in the market of other issues of short-term government securities. (In several instances, in order to complete purchases, it was necessary to acquire from dealers several blocks of government securities which were available only under resale agreement, such securities acquired being held only until permanent replacements could be made).

<u>Sales</u>				<u>Replacements</u>			
\$10,000,000-2	3/4% C/I due	June 15, 1932		\$12,175,000-1	1/2% C/I due	June 15, 1933	
10,000,000-3	1/8%	" Aug. 1, 1932		1,000,000-2	% T/N	" May 2, 1934	
7,000,000-3	%	" Sept. 15, 1932		25,825,000-3	%	" June 15, 1935	
9,000,000-2	%	" May 2, 1933					
3,000,000-3	3/4%	" Mar. 15, 1933					
<u>\$39,000,000</u>				<u>\$39,000,000</u>			

The following is a statement showing the maturities of the issues held in the System Account on May 14, 1932 and on July 13, 1932.

		May 14, 1932	July 13, 1932
U. S. Treasury Bills due	May 18, 1932	\$16,111,000	\$ 0
" " " " "	25, 1932	14,907,000	0
" " " " June	1, 1932	50,087,000	0
" " " " "	29, 1932	36,550,000	0
" " " " July	13, 1932	75,500,000	0
" " " " "	20, 1932	40,475,000	40,475,000
" " " " "	27, 1932	43,150,000	43,150,000
" " " " Aug.	10, 1932	15,000,000	16,000,000
" " " " "	17, 1932	0	53,600,000
" " " " "	24, 1932	0	47,427,000
" " " " "	31, 1932	0	76,029,000
" " " " Sept.	28, 1932	0	9,000,000
" " " " Oct.	11, 1932	0	40,000,000

	May 14, 1932	July 13, 1932
2 3/4% Cert. of Ind. due June 15, 1932	\$ 42,550,000	\$ 0
3 1/8% " " " " Aug. 1, 1932	53,900,000	60,650,000
1 1/8% " " " " Sept. 15, 1932	73,693,000	86,893,000
3 % " " " " 15, 1932	77,751,500	101,009,500
3 1/8% " " " " Oct. 15, 1932	84,161,500	85,011,500
3 1/4% Treasury Notes " Dec. 15, 1932	108,975,000	111,697,000
3 3/4% Cert. of Ind. " Feb. 1, 1933	8,025,000	13,275,000
3 3/4% " " " " Mar. 15, 1933	124,275,000	153,025,000
2 % " " " " May 2, 1933	75,200,000	102,350,000
1 1/2% " " " " June 15, 1933	0	94,600,000
3 % Treasury Notes " May 2, 1934	40,250,000	69,175,000
3 % " " " " June 15, 1935	0	77,600,000
4 1/4% 4th L/L Bds. of 1933-38	139,985,000	232,591,000
3 1/2% 1st " " " 1932-47	79,025,000	73,025,000
4 1/4% 1st " " " 1932-47	20,250,000	23,000,000
	<u>\$1,219,821,000</u>	<u>\$1,609,583,000</u>

ALLOTMENT OF NEW PURCHASES AND CHANGES IN
PARTICIPATIONS IN GOVERNMENT SECURITIES
HELD IN SYSTEM SPECIAL INVESTMENT ACCOUNT

The \$389,762,000 of new purchases made since May 14, have been allotted to Federal reserve banks as follows:

Boston	\$ 0
New York	203,379,000
Philadelphia	31,333,000
Cleveland	40,925,000
Richmond	3,902,000
Atlanta	16,139,500
Chicago	49,696,500
St. Louis	12,066,000
Minneapolis	11,692,500
Kansas City	5,865,500
Dallas	3,999,000
San Francisco	10,764,000
Total	<u>\$389,762,000</u>

Pursuant to the action taken at the meeting of the Open Market Policy Conference on May 17, in which it was voted to be the sense of the conference that all reserve banks should participate in the usual ratios, to the extent allowed by their reserve position, in all purchases made for the System Account since April 12, 1932, the following adjustments were made in the participations of the Federal reserve banks:

Boston	\$ 30,574,500 +
New York	164,299,000 -
Cleveland	15,484,000 +
Richmond	15,256,000 +
Atlanta	18,056,000 +
St. Louis	16,618,000 +
Minneapolis	11,404,000 +
Kansas City	19,906,500 +
San Francisco	<u>37,000,000 +</u>
Total Adjustment	<u>\$164,299,000</u>

CHANGES IN HOLDINGS OF GOVERNMENT SECURITIES
IN THE INVESTMENT ACCOUNT OF THE FEDERAL
RESERVE BANK OF NEW YORK

Owing to the low reserve position of the New York reserve bank, temporary sales from its outright holdings of \$124,000,000 government securities were made to the Federal Reserve Banks of Boston and Chicago, as follows:

On June 29, to Boston	\$10,000,000 - Treasury Bills due Aug. 17, 1932
" " 29, " Chicago	10,000,000 - " " " " 24, 1932
" July 6, " Boston	6,000,000 - 1 1/8% Cert. of Ind. due Sept. 15, 1932
" " 13, " Boston	<u>6,000,000 - Treasury Bills due Aug. 10, 1932</u>
	<u>\$32,000,000</u>

PLANS FOR REDISTRIBUTION OF UNITED STATES GOVERNMENT SECURITIES

At the meeting of the executive committee of the Open Market Policy Conference on June 16, there was an informal review of the distribution of government securities among the several reserve banks. It was pointed out that a number of the banks were limited by relatively low reserve percentages from taking their full quota of participation in System purchases and the New York bank had found it necessary to absorb a considerably larger amount of governments than its own share, and it was agreed that the secretary would prepare and send to each bank tables showing various plans for redistribution. In accordance with this action, tables showing various plans for redistribution based on figures as of June 15, 1932, were mailed to each Federal reserve bank on June 24. Copies of these plans, based on figures as of July 6, 1932, are attached to this report.

PARTICIPATIONS IN SYSTEM PURCHASES OF BANKERS ACCEPTANCES

The amount of bankers acceptances purchased by the System since May 14 has been negligible, with no allotments being made except (1) a special purchase on June 14 from a foreign correspondent of \$33,466,000 bills, at a special rate of 1%, in connection with the completion of gold earmarking operations of the foreign correspondent, and (2) purchase on July 2, from a foreign correspondent of \$10,365,000 bills, at a rate of 1%, in order to provide for payments to the money market. All of the Federal reserve banks participated in these purchases except that the Federal Reserve Banks of Kansas City, Minneapolis and Dallas did not participate in the first purchase of \$33,466,000.

Attached are statements showing:

Exhibit "A" - Issues of United States Government securities purchased for System Account during period April 13 to July 13, 1932, the markets in which these securities were purchased; also, the apportionment to participating Federal reserve banks of the securities purchased, the amount that each reserve bank participated over or short of its pro rata share and the reserve ratio of each Federal reserve bank on July 11, 1932.

Table No. 1 - Plans for redistribution of government securities in System Account.

Table No. 2 - Plans for redistribution of total holdings of government securities.

Exhibit "A" (1)

MATURITIES OF GOVERNMENT SECURITIES HELD IN SYSTEM ACCOUNT

JULY 13, 1932

SHORT-TERM ISSUES

Treasury Bills, Certificates and Notes

MATURING WITHIN 1 YEAR

Within 3 months (Including Oct. 15)	\$659,245,000
3 to 6 months	111,697,000
6 to 9 "	166,300,000
9 to 12 "	<u>196,950,000</u>

TOTAL MATURITIES WITHIN 1 YEAR - - - - - \$ 1,134,192,000

MATURING 1 TO 2 YEARS - - - - - 69,175,000

MATURING 2 TO 3 YEARS - - - - - 77,600,000

T O T A L - - - - - \$1,280,967,000

LIBERTY LOAN BONDS

First 3 1/2% Liberty Loan Bonds	\$ 73,025,000
" 4 1/4% " " "	<u>23,000,000</u>

(Due June 15, 1947
(Callable on or after Dec. 15, 1932) 96,025,000

Fourth 4 1/4% Liberty Loan Bonds

(Due Oct. 15, 1938
(Callable on or after Oct. 15, 1933) 232,591,000

G R A N D T O T A L - - - - - \$1,609,583,000

TABLE NO. 1

STATEMENT SHOWING VARIOUS PLANS OF REDISTRIBUTION OF GOVERNMENT SECURITIES IN SYSTEM ACCOUNT
FIGURES AS OF JULY 6, 1932
(000 Omitted)

	PLAN 1				PLAN 2			PLAN 3			PLAN 4		
	Present Plan - Based on Earning Requirements of Each Bank				Provides for Adjustment of Participations to Average Ratio of All Banks - 56.3%			Provides for Adjustment of Each Bank's Participation So That Its Holdings will be on the same Ratio that its combined Capital and Surplus is to the System Total			Provides for Adjustment of Each Bank's Participation so that its Excess Cash Reserves will be on the same ratio that its Capital and Surplus is to the System Total		
	Amount of Participation in System Account	Current Allotment Ratio	Present Holdings OVER or SHORT of Pro Rata Share		Reserve Ratio	Present Holdings OVER or SHORT of Pro Rata Share		Ratio of Combined Capital and Surplus to System Total	Present Holdings OVER or SHORT of Pro Rata Share		Excess Cash Reserves to System Total	Present Holdings OVER or SHORT of Pro Rata Share	
Boston	\$ 95,978	7 1/4%	\$ -0- \$ 19,266		65.3%	\$ -0- \$ 31,681		7 1/2%	\$ -0- \$ 23,240		10 3/4%	\$ -0- \$ 29,000	
New York	592,541	27 %	163,354 -0-		50.0%	96,008 -0-		32 1/2%	75,926 -0-		21 3/4%	97,000 -0-	
Philadelphia	131,592	7 3/4%	8,399 -0-		53.9%	9,332 -0-		10 1/4%	-0- 31,340		6 1/2%	35,000 -0-	
Cleveland	173,030	10 1/2%	6,123 -0-		54.7%	7,420 -0-		10 %	14,071 -0-		8 %	18,000 -0-	
Richmond	47,132	5 %	-0- 32,346		50.5%	8,618 -0-		4 %	-0- 16,451		2 %	18,000 -0-	
Atlanta	51,560	4 3/4%	-0- 23,945		47.8%	13,660 -0-		3 3/4%	-0- 8,049		1 3/4%	19,000 -0-	
Chicago	194,092	12 3/4%	-0- 8,580		70.8%	-0- 143,837		13 1/2%	-0- 20,501		35 1/4%	-0- 197,000	
St. Louis	63,529	4 1/4%	-0- 4,028		54.5%	2,973 -0-		3 1/2%	7,894 -0-		2 3/4%	6,000 -0-	
Minneapolis	45,587	3 %	-0- 2,101		49.2%	8,812 -0-		2 1/4%	9,820 -0-		1 1/2%	6,000 -0-	
St. Paul	54,629	5 1/2%	-0- 32,798		52.4%	6,236 -0-		3 %	6,942 -0-		2 1/2%	4,000 -0-	
Dallas	20,721	3 3/4%	-0- 38,888		56.9%	-0- 520		2 3/4%	-0- 22,992		1 3/4%	8,000 -0-	
San Francisco	119,192	8 1/2%	-0- 15,924		50.5%	22,979 -0-		7 %	7,920 -0-		5 1/2%	15,000 -0-	
TOTALS	\$1,589,583	100%	\$177,876 \$177,876		56.3%	\$176,038 \$176,038		100%	\$122,573 \$122,573		100%	\$226,000 \$226,000	

TABLE NO. 2

STATEMENT SHOWING VARIOUS PLANS OF REDISTRIBUTION OF TOTAL HOLDINGS OF GOVERNMENT SECURITIES
FIGURES AS OF JULY 6, 1932
(000 Omitted)

PLAN 1

PLAN 2

PLAN 3

PLAN 4

	Amount of Total Hold- ings of Government Securities	Present Plan - Based on Earning Requirements of Each Bank		Provides for Adjustment of Total Holdings to Average Ratio of All Banks - 56.3%			Provides for Adjustment of Each Bank's Total Holdings So That Its Holdings Will Be On the Same Ratio That Its Combined Capital and Sur- plus Is To The System Total			Provides for Adjustment of Each Bank's Total Holdings So That Its Excess Cash Reserves Will Be On The Same Ratio That Its Capital and Surplus Is To The System Total		
		Current Allotment Ratios	Present Holdings OVER or SHORT of Pro Rata Share	Reserve Ratios	Present Holdings OVER or SHORT of Pro Rata Share		Ratios of Com- bined Capital and Surplus to System Total	Present Holdings OVER or SHORT of Pro Rata Share		Ratios of Excess Cash Reserves to System Total	Present Holdings OVER or SHORT of Pro Rata Share	
Boston	\$ 112,730	7 1/4%	\$ -0- \$ 17,699	65.3%	\$ -0- \$ 31,681		7 1/2%	\$ -0- \$ 22,196		10 3/4%	\$ -0- \$ 29,000	
New York	690,838	27 %	205,102 -0-	50.0%	96,008 -0-		32 1/2%	106,156 -0-		21 3/4%	97,000 -0-	
Philadelphia	132,998	7 3/4%	-0- 4,426	53.5%	9,332 -0-		10 1/4%	-0- 49,402		6 1/2%	35,000 -0-	
Cleveland	173,030	10 1/2%	-0- 15,867	54.7%	7,420 -0-		10 %	-0- 6,272		8 %	18,000 -0-	
Richmond	47,132	5 %	-0- 42,819	50.5%	8,618 -0-		4 %	-0- 24,829		2 %	18,000 -0-	
Atlanta	51,676	4 3/4%	-0- 33,778	47.8%	13,660 -0-		3 3/4%	-0- 15,787		1 3/4%	19,000 -0-	
Chicago	267,205	12 3/4%	37,330 -0-	70.8%	-0- 143,837		13 1/2%	24,337 -0-		35 1/4%	-0- 197,000	
St. Louis	64,029	4 1/4%	-0- 12,429	54.5%	2,973 -0-		3 1/2%	1,063 -0-		2 3/4%	6,000 -0-	
Minneapolis	52,755	3 %	-0- 1,216	49.2%	8,812 -0-		2 1/4%	12,277 -0-		1 1/2%	6,000 -0-	
Kansas City	54,716	5 1/2%	-0- 44,230	52.4%	6,236 -0-		3 %	745 -0-		2 1/2%	4,000 -0-	
Dallas	30,721	3 3/4%	-0- 36,742	56.9%	-0- 520		2 3/4%	-0- 18,752		1 3/4%	8,000 -0-	
San Francisco	119,191	8 1/2%	-0- 33,726	50.5%	22,379 -0-		7 %	-0- 6,740		5 1/2%	15,000 -0-	
Totals	\$1,797,021	100 %	\$242,932 \$242,932	56.3%	\$176,038 \$176,038		100 %	\$144,578 \$144,578		100 %	\$226,000 \$226,000	

CONFIDENTIAL

File: \$7.32

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PRELIMINARY MEMORANDUM FOR THE OPEN MARKET POLICY CONFERENCE

JULY 14, 1932.

The results of purchases of government securities by the System since March were reviewed in a letter of July 5 from the chairman of the Conference to the governors of all Reserve banks. This letter indicated that the funds made available by security purchases had been largely used to enable banks to meet gold losses and to repay indebtedness at the Reserve banks, and that only a relatively small amount remained to provide excess reserves. In the absence of purchases of government securities there would have been a considerable increase in borrowings at the Reserve banks and a continuation of the drastic credit deflation which had been going on.

As to the effect on the Reserve System the purchases of government securities were a very small influence upon the reserve position of the Federal reserve banks, the declines in reserve ratios over this period being due almost altogether to gold losses rather than to purchases of governments.

The general results of the System's purchases of securities were summarized as follows:

- "(1) The very large repatriation of foreign central bank funds has been accomplished without any strain on the position of member banks, and thus one important obstacle to a more normal credit position has been removed.
- "(2) The pressure for liquidation of bank credit which usually results from the indebtedness of member banks has been materially lightened by a reduction in their total borrowings from more than \$800,000,000 to less than \$500,000,000.
- "(3) The decline in member bank deposits has been checked, and the liquidation of bank credit which had been proceeding at an alarming rate has been substantially retarded."

ADMINISTRATIVE MARKING
E.O. 12065, Section 6-102
NARS, Date 8-23-05
BY JTB

All of these results are real accomplishments in themselves and have probably avoided very serious consequences of continued or increased credit liquidation. Nevertheless the ultimate purpose of bringing about an increase in the volume of bank credit, which might in its turn influence business activity has not yet been achieved for the results so far accomplished are not such as would be expected to exercise a very direct or affirmative influence upon business activity. It, therefore, seems desirable at this time to review the general business and industrial situation as a basis for determining the extent to which further purchases of government securities would be likely to prove effective.

Production, Trade, and Employment

A further decline in the volume of production and trade and in numbers of workers employed is shown by the available figures for May and June. Indexes commonly used to measure fluctuations in business now show greater declines than this country has ever before experienced. The depressions of the 70s and the 90s brought with them nothing approaching the cessation in activity which occurred in recent months. The following table shows the percentage decline in production in this recent period compared with the decline in other important depressions:

including many railroads, and the insolvency of many banks.

Favorable Factors

Fortunately, at this point a number of the principal obstacles to business and financial improvement have been removed. The practical completion of the removal of foreign short time balances from our money market has removed a threat to our gold position. Domestic gold hoarding has practically stopped. A tax bill has been passed by Congress which it is hoped will place the budget in approximate balance. The relief bill with added powers to the Reconstruction Finance Corporation will probably soon be passed. The reparations agreement has been signed at Lausanne. Definite settlement has been effected of a number of individual domestic situations which threatened to prove disturbing. The bonus bill and a number of other unsound legislative proposals have been defeated. Business has effected many readjustments in costs and has begun to evidence a more hopeful sentiment.

Already the course of financial events has begun to reflect these favorable developments. The bond market, and particularly the market for foreign bonds, has shown improvement as indicated in the following figures:

	1932	July 11,
	Low	1932
Standard Statistics corporation bond average	57.45	60.19
Baker-Kellogg foreign bond average	54.22	59.58*

* July 8 figure

Declines in Industrial Activity *

(Computed normal = 100)

<u>High Point</u>		<u>Low Point</u>		<u>Decline</u>
<u>Date</u>	<u>Actual Data</u>	<u>Date</u>	<u>Actual Data</u>	<u>Per Cent</u>
Jan. 1873	114.6	Feb. 1878	87.3	24
Feb. 1892	113.9	Jan. 1894	80.1	30
Jan. 1906	112.6	May 1908	81.9	27
Jan. 1920	111.2	Apr. 1921	73.0	34
Apr. 1923	115.2	July 1924	87.3	24
June 1929	114.7	June 1932 (est.)	50.6	56

* From index published by Cleveland Trust Company.

The total number of wholly unemployed workers in the United States is now estimated at about 10,000,000, an increase of about 3,000,000 to 4,000,000 from a year ago. This is more severe unemployment than we have ever before experienced in this country and constitutes a major social and economic problem for it carries with it the threat of social disturbance and radical legislation. To bring about reemployment before winter is the problem which faces the country.

Looked at from the point of view of business and finance the problem is almost equally pressing, for a continuation of the present restricted volume of business activity over an extended period of months would mean the bankruptcy of many business concerns

Basic commodity prices, after a month of approximate stabilization, have begun to show improvement as indicated by the following figures for principal basic commodities.

	<u>1932</u>	
	<u>Low</u>	<u>July 11</u>
Wheat, cash, at Minneapolis, per pound	\$0.5288	\$0.5400
Corn, cash, at Chicago, per pound	0.2938	0.3175
Hogs, average, per hundredweight	3.19	5.33
Steers, average, per hundredweight	6.29	8.38
Hides, per pound	0.0369	0.0425
Sugar, raw, per pound	0.0257	0.0305
Cotton, middling, New York, per pound	0.0500	0.0585
Wool, per pound	0.3072	0.3072
Silk, per pound	1.13	1.18
Rubber, smoked ribbed sheets, per pound	0.0256	0.0256
Copper, electrolytic, per pound	0.0525	0.0531
Tin, per pound	0.1844	0.2075
Pig iron, per ton	13.76	13.76
Finished steel, per pound	0.02037	0.02087
Scrap steel, Pittsburg, per ton	8.25	8.25
Petroleum, crude, per barrel	0.873	1.017

The establishment of banking and industrial committees in the different Federal reserve districts should also be listed as among the favorable factors, for they provide machinery available to carry out in the several districts any plans agreed upon for industrial and financial rehabilitation.

Capital Goods Industries Most Depressed

In considering the effectiveness of various means which may be employed for stimulating employment or industrial activity, consideration may well be given to the variation between different industries as to their extent of activity and employment of workers. These figures which are shown in full in the tables at the end of this memorandum, show that the greatest cessation of activity has been in the basic industries producing what may be termed capital goods. This may be illustrated by the following index figures for activity in different industries.

<u>Industry</u>	<u>Percentage of Computed Normal</u>
Pig iron	20
Steel	23
Bituminous coal	48
Cement	44
Lumber	33

As contrasted with these figures production of the following consumption goods may be listed:

<u>Industry</u>	<u>Percentage of Computed Normal</u>
Boots and shoes	87
Hosiery	67
Live stock	83
Wheat flour	78
Sugar	56
Tobacco	79

The whole group of industries classified under producers goods in the index compiled by the Federal Reserve Bank of New York are operating at 49 per cent of computed normal, whereas the industries classified under consumers goods are operating at a rate 77 per cent of computed normal. Unemployment and wage figures support this same general conclusion, that the greatest cessation in activity and the greatest amount of unemployment has taken place in the capital goods industries; that is, those industries which produce for the use of other industries primarily, and the activities of which are largely financed through the capital market.

The extreme depression in these industries appears to reflect, first, some over-production of capital goods in the years just before the depression, and second the disorganization of the bond market to a point where new financing has become practically impossible, and capital is no longer available for business even at prohibitive prices. What is most required to revive these basic industries, is cheap long-term capital.

The surveys thus far conducted by banking and industrial committees in a number of districts appear to indicate that there are a considerable number of sound enterprises which can go forward as soon as capital is available upon moderate terms. There are three principal fields in which these enterprises now appear:

(1) Building Construction. While there has been over-production of office buildings and high class apartments there is a considerable demand for cheap apartments and moderate-priced private dwellings, and for modernization of old buildings.

(2) Modernization of existing industrial facilities to keep pace with recent inventions and improvements.

(3) Public and semi-public projects.

In addition to these three major forms of capital goods there appear to be many other small enterprises in which a more adequate supply of capital and of bank credit would find profitable employment if it were available upon moderate terms. In the consumption industries also stocks are low and trade is retarded by shortages of capital and credit.

Function of the Banks

In the furnishing of both credit and capital to business the banks occupy the key position. For the past year and a half the banks have not only decreased greatly their extensions of credit to business but also have withdrawn large amounts of funds from the capital market as illustrated in the following figures for weekly reporting banks:

(In millions of dollars)

	Dec. 31, 1930	July 6, 1932
Loans:		
On securities	7,814	4,632
All other loans	8,449	6,484
Investments:		
U. S. securities	2,992	4,210
Other securities	3,701	3,206
Total loans and investments	22,956	18,532

By their decrease in investments in securities other than Governments and their decrease in loans upon securities these banks have thus withdrawn in this period nearly four billion dollars from the capital market, whereas ordinarily the banks of the United States pour into this market about a billion dollars a year in these two forms.

In recent weeks since the Reserve System began its policy of vigorous purchases of government securities there has been some change in this tendency. Bank credit as a whole stopped its rapid decline and tended to level out and the contribution of the banks to the capital market showed a similar tendency until the latter part of June when bank disturbances and mid-year and holiday demands used up most of the surplus reserves and caused some resumption in the decline in credit.

Any program for meeting the present emergency must depend upon two forces for increasing business activity and employment: first, the natural stimulation which will arise from a general improvement in the security market and in the business and financial situation generally, and second, the stimulation of activity through the agencies of the government. The problem has now become so acute and the time has become so short that it has now been generally agreed that artificial methods are necessary. The artificial methods used appear to depend upon the particular form of the relief bill which Congress may adopt. In any event such a bill is likely to require a considerable amount of additional government financing, the floating of which on the market during coming months is essential to the entire program. Along with this governmental program it is to be hoped that a natural recovery in the security markets and in prices and business itself may be accompanied by an increased use of the normal channels of financing. To achieve both of these purposes vigorous support by the banks of the country is essential, and an increase in bank credit.

CHANGES IN EMPLOYMENT AND PAYROLLS BETWEEN MAY 1929 AND MAY 1932

(1923-1925 average = 100)

	<u>Employment</u>		<u>Payrolls</u>	
	<u>1929</u> <u>May</u>	<u>1932</u> <u>May</u>	<u>1929</u> <u>May</u>	<u>1932</u> <u>May</u>
Iron and steel	100.7	57.2	111.6	30.4
Machinery	119.1	54.4	131.9	35.9
Textiles	97.3	62.0	99.3	41.5
Food products	97.3	81.0	103.1	72.9
Paper and printing	102.8	83.8	114.3	77.0
Lumber and products	89.2	38.6	92.8	22.2
Transportation equipment	101.5	52.4	116.0	45.9
Automobiles	130.0	59.7	147.1	53.5
Leather and products	90.3	72.7	88.1	45.7
Cement, clay, and glass	93.1	47.0	91.8	30.2
Nonferrous metals	105.3	51.4	123.1	34.5
Chemicals	110.3	78.3	113.1	66.9
Petroleum refining	114.4	78.2	118.9	72.5
Rubber products	115.3	66.0	146.5	48.7
Tobacco products	90.3	67.3	86.1	48.4

INDEXES OF PRODUCTION

(Computed normal = 100)

<u>Items</u>	<u>1929</u> <u>May</u>	<u>1932</u> <u>May</u>	<u>1932</u> <u>June</u>
Pig iron	114	22	20
Steel ingots	121	24	23
Lead	112	43	-
Zinc	113	35	32
Tin	141	48	48
METALS	131	31	-
Cotton consumption	109	55	-
Wool mill activity	102	38	-
Silk consumption	101	60	-
TEXTILES	105	51	-
Bituminous coal	110	52	48p
Coke	120	40	-
Petroleum, crude	112	72	-
Cement	115	44	-
Lumber	104	33	-
Newsprint paper	98	79	-
Cotton receipts	103	109	-
Wheat receipts	92	73	-
OTHER PRODUCERS GOODS	103	66	-
TOTAL PRODUCERS GOODS	113	49	-
Anthracite coal	90	52	40p
Petroleum products	101	67	-
Boots and shoes	111	87	-
Finished cotton goods	116	53	-
Hosiery	108	67	-
Knit underwear	115	84	-
Livestock	93	96	83
Wheat flour	108	78	-
Sugar	80	56	-
Tobacco	112	79	-
Farm produce	96	92	-
TOTAL CONSUMERS GOODS	103	77	-

p = preliminary

INDEXES OF BUSINESS ACTIVITY

(Computed normal = 100)

Items	1929 May	1932 May	1932 June
Carloadings, mdse. and misc.	104	56	55
Carloadings, other	111	42	38
Exports	102	50p	-
Imports	115	60p	-
Waterway traffic	113	34	-
Wholesale trade	103	76	-
PRIMARY DISTRIBUTION GROUP	106	57	-
Department store sales	101	76	-
Chain grocery	104	77	-
Other chain	107	78	-
Mail order	116	75	-
Advertising	102	59	-
Automobile registrations	115	31p	-
DISTRIBUTION TO CONSUMER GROUP	105	70	-
Life insurance	99	73	-
Postal receipts	101	69	-
Electric power	107	68p	-
Corporations formed	101	83	-
GENERAL GROUP	102	68	-
TOTAL VOLUME OF DISTRIBUTION OF GOODS	105	65	-
Production of producers goods	113	49	-
Production of consumers goods	103	77	-
Automobile production	136	37	-
Employment	105	64	-
Building construction	115	31	22p
PRODUCTIVE ACTIVITY GROUP	110	57	-
TOTAL VOLUME OF PRODUCTION AND DISTRIBUTION OF GOODS	106	63	62p
New York City debits	130	57	-
Shares sold on N. Y. Stock Exchange	237	56	59
New capital issues	130	14	-
Trading in grain futures	98	48	-
FINANCIAL GROUP	130	44	-
Outside debits	107	63	62p
TOTAL VOLUME OF TRADE	106	61	-

p = preliminary