

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date December 7, 1936

To Chairman Eccles

Subject: _____

From Mr. Goldenweiser



In connection with your Treasury meeting.

CURRENT COMMENTS IN BRIEF

Excess reserves

Excess reserves of member banks showed no change in the week ending December 2.

Reporting member banks

Deposits of weekly reporting member banks increased further in recent weeks, reflecting largely the steady inflow of gold and Treasury disbursements, with little change in loans and investments. New York banks increased their holdings of Government obligations in the week ending December 2, bringing them to the level of four weeks ago. These banks generally increase their holdings of Government obligations in the weeks preceding new Treasury financing, as the result of purchases of securities about to mature to be offered in exchange for new issues. Commercial loans at New York banks continued to increase somewhat, while outside New York they have shown little change in recent weeks.

Foreign trade surplus in October

The foreign trade figures just out for October show that part of the recent inflow of gold may reflect the season's merchandise movement. The export surplus amounted to \$53,000,000, which is an increase of \$21,000,000 over October 1935. Orders arising out of rearmament programs abroad undoubtedly played a part. Aircraft and other machinery, iron and steel manufactures, copper, coal, and cotton were among the exports showing the greatest increase over last year. The increase in our imports was chiefly in rubber, fertilizer, and certain food products.

Stock market

The stock market has been rather less active during the last two weeks, with trading amounting as a rule to about 2,000,000 shares per day. The average level of stock prices has not changed much, but it has had recently a slightly downward trend -- which was first shown in railroad stocks and later in industrials.

Foreigners sold American securities last week. The heaviest selling occurred on Wednesday and coincided with a sharp decline on the stock exchange here and a break in London accompanying the "constitutional crisis". Englishmen sold American stocks on balance every day of the week. Other countries, with occasional exceptions, bought moderate amounts. The net result was the withdrawal of \$5,000,000 to \$10,000,000 of foreign money from our security markets. British stocks in London have also declined somewhat from their prices in the middle of November, which were the highest since the autumn of 1930.

Dividend payments

Statistics on dividends declared during November, as compiled by the New York Times, summarize the cumulative effect of the many dividend declarations of recent weeks, when corporations have been making distributions to avoid the tax on undistributed earnings. The total for November was \$880,000,000, exclusive of declarations by banks and insurance companies. This compares with a preceding maximum of about \$560,000,000 in December 1930. Dividend declarations during the past month included about 1,100 corporations of which more than 300 were extra. Sub-groups which show large declarations, although not necessarily the largest increases as compared with last November, are oil companies, public utilities, and companies making automobiles.

Gold -

Weekly Statement

CONFIDENTIAL

Tr. 7
November 30, 1936

CURRENT COMMENTS IN BRIEF

Excess reserves

On November 26 member bank excess reserves amounted to \$2,210,000,000, a drop of \$70,000,000 from a week ago. This decline reflected principally a seasonal increase of \$50,000,000 in money in circulation.

During the current statement week ending December 2 it is expected that excess reserves will show little change. In fact, little change in excess reserves is expected to occur between now and the December 15 financing. Money in circulation will increase, but it is likely that this increase will be partially offset by additions to the gold stock. During the Christmas season money in circulation is expected to increase further by approximately \$200,000,000, but there will be a rapid decrease after Christmas, and by the end of January it is estimated that over \$300,000,000 will return from circulation.

Reporting member banks

Growth in excess reserves in recent months has been accompanied by an increase in bankers' balances to new high levels. On November 18 domestic bankers' deposits in weekly reporting banks amounted to nearly \$6,300,000,000 as compared with an average of about \$5,600,000,000 in the first half of this year. Over \$2,500,000,000 of these deposits are in New York City banks.

Holdings of Government obligations by New York City banks declined further in the week ending November 25 and showed little change on Friday. Government obligations held by these banks are now back to where they were prior to the heavy financing of the Treasury in June. Commercial loans at New York banks declined during the week while Street loans advanced.

Stock market

Activity in the stock market has diminished somewhat further during the past week, with sales approximating 2,000,000 shares per day. Average prices, after a sharp decline on Monday and a subsequent advance, were on Friday, November 27 at about the same level as on the preceding Saturday. The Standard Statistics index for 90 stocks, at 137.7 percent of the 1926 average, was about half way between the highest and lowest levels reached since the election and somewhat above the level of late October. Industrial stocks continue to be higher than before the election, while railroad and utility stocks continue to be lower.

A seat on the New York Stock Exchange sold during the week at \$95,000, down \$7,000 from the preceding week and at the lowest level since the spring of 1935, when a seat sold at \$65,000.

Reduced foreign buying of American securities following the President's warning

Since the President's statement to the press on November 13 expressing concern over the flow of foreign funds to our security markets and indicating that measures of control were being considered, foreign buying of American securities has been irregular. On the two days following the statement, and three separate later days, foreign sales exceeded purchases. For the entire period November 14 - November 28 it is estimated that foreigners have added less than \$15,000,000 to their holdings. This contrasts with the practically uninterrupted buying on balance in the previous month and a half during which weekly additions to holdings of American securities ranged from \$25,000,000 to \$50,000,000.

The irregularity in the stock market during the past two or three weeks and the absence of a rise may be related to the sharp decline in foreign buying, both as a cause and as a consequence.