

BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM

# Office Correspondence

Date December 15, 1936

To Chairman Eccles

Subject: \_\_\_\_\_

From Mr. Goldenweiser

In connection with your Treasury meeting.

December 15, 1936

CURRENT COMMENTS IN BRIEFExcess reserves

Excess reserves of member banks were reduced slightly in the week ending last Wednesday and will be reduced by perhaps as much as \$80,000,000 more during the current statement week ending December 16, as a result of an increase in Treasury deposits at the Reserve banks and a further growth of money in circulation.

Before Christmas excess reserves may decline as low as \$1,900,000,000, but after the holidays they will increase rapidly.

Holdings of Government securities by New York City banks

Holdings of Government securities by New York City banks have remained unchanged since December 2. This was somewhat unexpected in view of the fact that in this period offerings of Treasury bills, which are usually bought heavily by New York banks, exceeded maturities by \$50,000,000, and of the fact that for a week or two prior to new Treasury financing these banks generally purchase Government obligations about to mature in order to offer them in exchange for new issues. Dealers in Government securities also usually purchase such maturities for the same purpose, largely with funds borrowed from banks, and during the latest statement week loans to brokers and dealers in securities by New York banks increased by \$56,000,000, reflecting principally larger loans to dealers in Government securities.

Stock market

Activity in the stock market during the week ended December 12 was at about the same level as in other recent weeks, varying between 1,500,000

and 2,500,000 shares per day, and prices fluctuated within narrow limits. Average prices were about the same as in the week before election.

The proportion of the total trading that is represented by trading in so-called low-priced stocks has been increasing of late. The proportion of trading represented by a selected group of 225 stocks priced on June 30 at \$15 per share or less has gradually increased since last August - from about 32 percent of the total number of shares traded to more than 40 percent, and from about 10 percent of the dollar volume to more than 15 percent.

#### Business conditions

Industrial production and the distribution of commodities to consumers increased considerably further in November. Factory employment and payrolls appear to have been sustained, although a decline is usual at this time of year. The Board's adjusted index of industrial production increased from 109 percent of the 1923-1925 average in October to about 114 percent in November, the highest since October 1929. Adjusted indexes for department store sales and freight-car loadings also increased substantially in November and were at the highest levels since the middle of 1931.

#### Commodity prices

Wholesale commodity prices have shown a broad advance since the end of October, reflecting speculative buying, continued growth in domestic and foreign consumption of industrial materials, and declining stocks of some commodities. Some of the buying has been for armament purposes. In this period of a month and a half the Bureau of Labor Statistics index of wholesale prices has advanced 2 points to 83 percent of the 1926 average. This increase has reflected a rise in prices for industrial commodities as well as in prices of farm products and foods.