Form F. R. 131

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date February 8, 1937

To Chairman Eccles

Subject:

From Mr. Goldenweiser

In connection with your Treasury meeting.

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CURRENT COMMENTS IN BRIEF

Business conditions

On the basis of returns so far received, it is estimated that the Board's index of production (seasonally adjusted) will show a decline from 121 in December to 116 in January. Output in January in several industries, notably steel and textiles, increased less than seasonally, following an unusually large output in December. Automobile production was curtailed by strikes, and output in a number of industries was reduced by floods in the Ohio River Valley. Department store sales showed the usual seasonal decline in January, according to preliminary figures, and the Board's adjusted index remained at the level of the two preceding months.

Money market

Announcement of the increase in reserve requirements had little effect on the money market last week. On Monday dealers offering rates on bankers' acceptances with maturities of from 3 to 6 months were raised by 1/16. As a result of this and corresponding advances made in the second week of January and also last July, the rate on 3-month bills is now 5/16 of 1 percent compared with a rate of 1/8 of 1 percent, which prevailed from October 1934 until last July. The average rate on Treasury bills offered on Friday was .37 percent compared with .40 percent on those offered the previous week, before the announcement of the increase in reserve requirements. This rate had risen from below .10 early in December.

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Yields on 3-5 year Treasury notes, which had advanced from slightly below 1 percent in the latter part of November to 1.22 at the end of January, declined slightly to 1.18 percent last week. Yields on long-term Treasury bonds also declined slightly, about cancelling the increase of the preceding week.

Bond market

Prices of corporate bonds showed small changes last week, following declines in January. The volume of bond transactions on the New York Stock Exchange was little changed from the preceding week. A relatively small total of new issues reached the market during the week, and were fairly well distributed, according to dealers' reports. A much larger volume of new issues is scheduled for offering in the current week.

Stock market

Stock prices advanced during the week ending February 6 to a new high level for the period of recovery, and, notwithstanding a decline after the President's message on Friday concerning reorganization of the judiciary, closed on Saturday, according to the Standard Statistics index for 90 issues, at a level somewhat higher than a week earlier and above the highest level of last year. The volume of trading varied during the week from less than 2,300,000 shares on certain days to more than 3,000,000 shares on Friday.

Foreign security buying

Net foreign purchases of American securities last week were larger in volume than in any other week since mid-November. In fact, they appear to have been substantially in excess of the amount acquired by foreigners in the week ending January 18 ($21,000,000), the only other week in nearly three months in which the volume of foreign buying has approached that of the October-November buying wave.

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The French franc

The moderate rise in French exchange that followed announcement on January 28 of an increase in bank rate from 2 to 4 percent, and of a £40,000,000 credit to the French railways, did not last. Immediately before these developments the outward movement of capital from France was substantial, and it appears to have been resumed on a large scale during the last few days. Contributory factors to the renewed pressure on the franc were (1) rumors that imposition of exchange restrictions was being seriously considered by the Government, and (2) the revelation on February 4 that during the week preceding conclusion of the sterling credit the French Stabilization Fund had obtained 3,000,000,000 francs ($140,000,000) of gold from the Bank of France. Statements by the Finance Minister -- designed to be reassuring -- that remaining requirements to be covered by borrowing in 1937 (that is, excluding 8,000,000,000 francs already obtained) would not exceed the amounts borrowed in preceding years, and that he was resolutely opposed to further devaluation and to exchange control, appear to have had little effect.

Sterling also was under pressure during the last few days, presumably reflecting the heavy British participation in last week's foreign buying of American securities.

Foreign Exchange Quotations
(Cents per unit)

	French franc	Sterling
January 28	4.65 3/4	489.75
February 2	4.66 1/8	489.90
February 8	4.65 3/4	489.44

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Loans and investments of all member banks in 1936

Total loans and investments of all member banks increased by nearly $3,000,000,000 in 1936, according to figures now available from the member bank call report of December 31, 1936. This compares with an increase of $1,800,000,000 in 1935. The weekly reporting member banks in leading cities showed an increase of $2,000,000,000 in 1936, and other banks, including country banks, showed an increase of $1,000,000,000, the largest for any year since 1927.

Most of the increase of $1,000,000,000 in the class of loans that includes advances to commerce, industry, and agriculture was at city banks. Country banks showed a small decrease in these loans in the last half of the year, following some increase in the first half, probably reflecting customary seasonal changes in agricultural borrowings. In the year country banks increased their loans on real estate by $90,000,000, holdings of commercial paper bought in the open market by $40,000,000, Government obligations by $450,000,000, and other securities by $290,000,000. These figures indicate that local demand for loans at country banks continued small, but that these banks were somewhat more active than in other recent years in putting their funds to use elsewhere.

Holdings of Government obligations by all member banks showed a decline of $125,000,000 in the last half of 1936, following an increase of $1,400,000,000 in the first half. The decline since June was entirely at banks in New York City; banks outside New York reported a further increase of $430,000,000 in the last half of the year, following a similar increase in the first half.

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