

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date May 18, 1937

To Chairman Eccles

Subject: _____

From Woodlief Thomas

W.T.

In connection with your Treasury meeting.

CURRENT COMMENTS

Excess reserves

During the week ending May 12 member bank excess reserves increased \$50,000,000 to a total of \$940,000,000. The principal factor accounting for this increase in excess reserves was a decline of \$50,000,000 in nonmember deposits through the cashing of certified checks of the New York Reserve Bank in connection with the redemption of New York State notes maturing during the week. During the current statement week ending May 19 it is expected that excess reserves may show a slight further increase. The Treasury plans to reduce slightly its balance at the Reserve banks, and there is likely to be a small further return of money from circulation.

On May 19 the Treasury will probably have a combined total of \$280,000,000 on deposit with the Reserve banks and at special depositories, a decrease of \$970,000,000 since December 23, 1936, when the gold sterilization policy was inaugurated. Since that date the public debt has increased by over \$800,000,000; the Treasury has met a net deficit of more than \$1,000,000,000 and has purchased \$675,000,000 of gold.

Reporting member banks

In the week ending May 12 total loans and investments of reporting member banks in New York City declined by \$57,000,000, reflecting principally decreases of \$28,000,000 in brokers' loans and of \$33,000,000 in securities other than those of the United States. Holdings of Government securities

- 2 -

declined slightly. Commercial loans increased by \$18,000,000. At reporting member banks outside New York City changes in loans and investments were small.

New York City banks gained \$50,000,000 of reserves in the week and reduced their borrowings by \$21,000,000, notwithstanding a further loss of \$47,000,000 in balances of domestic banks and of \$13,000,000 in Government deposits. Time deposits at New York City banks, however, increased by \$46,000,000 and balances of foreign banks by \$21,000,000. Demand deposits increased by \$25,000,000 at banks outside New York and Chicago.

Bond market

Treasury bonds and notes declined slightly after Monday of last week, following the recovery of the previous week. The average yield on the longer-term issues was around 2.67 percent during most of the week, and that on 3-5 year notes about 1.48 percent.

Following the advance in the preceding week, prices of corporate bonds declined moderately last week. High-grade bonds moved within narrow limits, but lower-grade railroad and public utility issues lost about a point. The average yield of Aaa bonds on Monday of this week was 3.34 percent. Municipal bond yields were unchanged. The volume of bond transactions on the New York Stock Exchange was very small, as in the preceding week.

The number of new security issues offered for sale last week was greater than in the previous week but their aggregate value was smaller, totalling \$28,000,000 in comparison with \$90,000,000 in the week ending May 8. Most of the issues were reported to have sold well.

Stock market

The general trend of stock prices last week was downward, with a sharp drop on Thursday that brought the Standard Statistics Index for 90 stocks to the lowest level since last August. There were small advances on Friday and Saturday. Activity in the stock market increased somewhat during the week with average daily shares approximating 1,000,000 shares.

Preliminary figures reported to the Board for the end of April by brokerage firms carrying margin accounts indicate that while such firms increased their borrowings during April, the increase reflected chiefly a decline in their customers' credit balances rather than an increase in their customers' debit balances.

The prices of British stocks in London declined during the week but remained considerably above the lowest level of the year, which was reached about two weeks ago.

Foreign selling of American stocks

Last week foreigners returned to the selling side of the stock market. The purchase balance recorded in the week ending May 10, therefore, appears to have been but a temporary interruption in the selling movement which has been under way since the first week of April.

Gold and capital movements

The inflow of foreign short-term balances and the engagement of gold for shipment to the United States, although smaller than in April, remain substantial. Gold engaged for shipment to this country or acquired directly through release from earmark amounted to \$28,000,000 in the week ending Wednesday, May 12, and a nearly equivalent amount was engaged or acquired from earmark in the subsequent three days.

Commodity prices

Wholesale prices of commodities continued to decline last week. Cotton, cotton goods, hides, steel scrap and copper scrap declined somewhat further and prices of grains were generally lower than in the preceding week. Rubber and cocoa declined considerably. Lumber prices were reduced in the New York market.

Industrial production

Volume of industrial production was maintained in April and the Board's seasonally adjusted index remained at 118 percent of the 1923-25 average. Output of manufactures and of most minerals increased further, but bituminous coal production declined sharply from the level reached in March when coal was being stocked in anticipation of a strike. Steel production increased slightly and there was a considerable expansion in output of automobiles. In both these industries output was maintained at a high level in the first half of May. Lumber production increased further in April. Cotton consumption declined somewhat but continued large.