October 18, 1935
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CONFIDENTIAL

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BUSINESS AND CREDIT CONDITIONS

General summary

Sustained activity of business at a level near the high point reached at the beginning of the year is the outstanding fact in the current economic situation.

The increase over last year has been chiefly in industries producing durable goods, the low level of activity of which has been the principal characteristic of the depression. There has been this year, for the first time since the decline which in this industry began early in 1928, a marked and sustained increase of residential building--though the volume of construction is still relatively small.

Greater activity in industry has been accompanied by an advance in the income both of industrial workers and of farmers, and the distribution of commodities to consumers also increased. There has been no evidence of accumulation of stocks of commodities. Wholesale prices of farm products and foods have continued to advance, but at a slower rate than in 1933 and 1934. Prices of most industrial products have shown little change in the past two years.

Notwithstanding the improvement in business, there is still a large volume of unemployment and the burden of relief continues to be heavy.

Continued ease in the money market and the accumulation of a vast amount of idle funds in the hands of investors has been reflected in a revival in the capital market. Security flotations have been in larger volume than in any year since 1931; for the most part they have been refunding issues reducing

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the debt service, particularly of corporations, but there has also been an increase in the amount of new money raised to be used in part in liquidation of bank debt and in part for productive purposes.

Industrial profits have increased, and there has been a sustained advance in security prices--representing the effect of cash buying by investors. Bank loans to brokers have not increased and security loans to other borrowers have declined.

Expansion of total bank loans and investments has been continuous during the year and has reflected for the most part additional purchases by banks of United States Government obligations and of securities guaranteed by the Government. Bank deposits have grown as the result chiefly of gold imports and disbursements by the Government, and demand deposits of member banks are at a higher level than at any previous time. The growth in deposits has been large enough to meet the increased demands of business and the turnover of deposits has shown little change.

In recent months disturbed conditions abroad and expectations of a rise in security prices have resulted in a large flow of capital to this country and consequent imports of gold. These imports have been the chief factor in carrying member bank reserves to a new high level, as shown in the accompanying chart. Notwithstanding a considerable increase in legal reserve requirements consequent upon the increase in deposits and a more than seasonal growth in the demand for currency arising from the greater volume of trade, excess reserves of member banks increased further and at $2,900,000,000 are at the highest point on record.

Immediate prospects in the business situation taken as a whole appear to be favorable.

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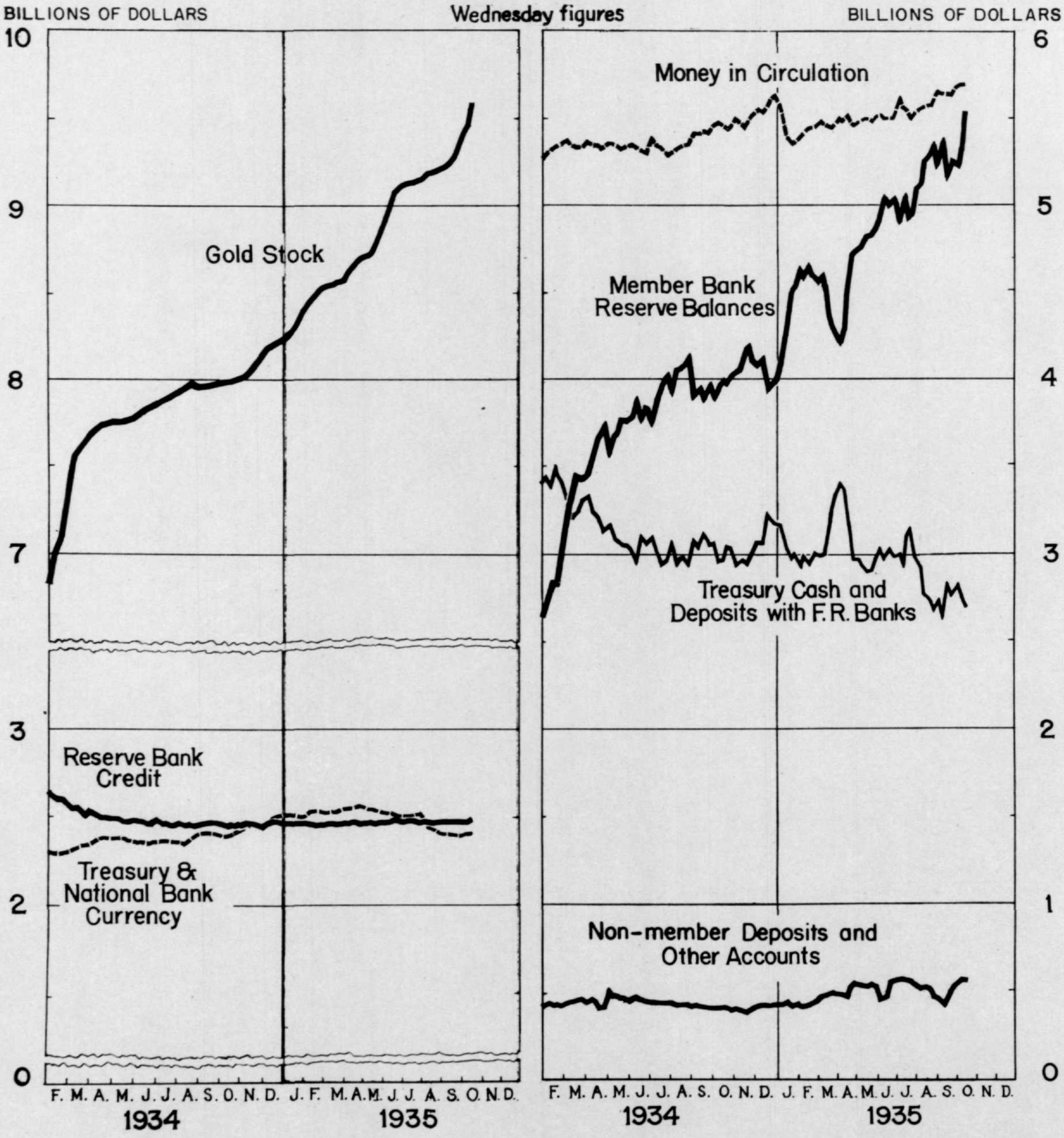
MEMBER BANK RESERVE FUNDS AND FACTORS OF CHANGE IN THEIR VOLUME

Since January 31, 1934



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Business activity

During the first three quarters of 1935 industrial activity and employment have been maintained at a level higher than in any of the four preceding years and about half way between the lowest point of the depression and the 1929 level. The increase in production over last year, amounting to about 10 percent, has been largely in durable manufactures, particularly automobiles, machinery, and steel, while output of non-durable manufactures in the aggregate has shown a relatively small increase.

Since the beginning of the year, industrial activity has shown less change than in the corresponding period of any other recent year. In September the Board's seasonally adjusted index was at 89 percent of the 1923-1925 average as compared with a high point of 91 percent in January and a low point of 85 percent in May. Industrial prices also have fluctuated within a narrow range and there has been no general accumulation of stocks of industrial products such as occurred in the rapid speculative advance in prices and production during the summer of 1933.

The volume of residential building, which had remained unchanged at exceptionally low levels in 1932, 1933, and 1934, has shown an increase this year, reflecting improvement both in the real estate situation and in the mortgage market. The current level is approximately twice that of last year and one-fifth that of the peak years 1925 to 1928. Commercial and factory building has continued at a low level. There has been less public construction in recent months than a year ago; currently, however, a considerable amount of new public work is being undertaken.

Incomes in industrial communities have increased somewhat, as compared with a year ago, reflecting primarily increased industrial activity. Relief

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expenditures by the government have continued at a high level. Factory payrolls for the first three quarters were 10 percent larger, and there was also an increase in wage payments on the railroads, where employment declined somewhat but wage rates advanced.

Industrial profits have also been larger than in the corresponding period of 1934. The largest increases have been in the automobile, building materials, machinery, and electrical equipment industries, while the profits of public utilities, which had shown a relatively small decline during the depression, have decreased somewhat further this year.

Agricultural income has been above that of a year ago by about 5 percent, chiefly as a consequence of higher prices for livestock and livestock products. Marketings of livestock have been sharply reduced while crop production has shown a considerable increase over last year, when drought conditions prevailed.

The volume of domestic trade has been somewhat larger than a year ago, particularly in rural areas. Purchases of household equipment and automobiles have shown a substantial growth, and the dollar volume of sales by department stores has been larger, with the most marked increases over last year reported in recent months.

Although economic activity has increased substantially from the low levels of the depression, the current level is considerably below that in 1929 and the volume of unemployment continues high.

The accompanying table shows a comparison of business conditions in September and the first three quarters of 1935 with conditions in the years 1929, 1932, 1933 and 1934.

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BUSINESS CONDITIONS

Index numbers, 1923-1925 = 100

	Industrial production	Construction contracts awarded (value)	Factory employment	Factory payrolls	Department store sales	Wholesale prices 1/	Retail food prices 2/
1929	119	117	105	109	111	95	157
1932	64	28	64	46	69	65	102
1933	76	25	69	49	67	66	100
1934	79	32	79	62	75	75	111
1935							
Jan.-Sept.3/	87	31	81	68	78	80	122
Aug.3/	87	38	82	70	79	81	122
Sept.3/	p89	p41	p82	p71	p82	81	124

p--Preliminary.
1/ 1926 = 100; index of Bureau of Labor Statistics.
2/ 1913 = 100; index of Bureau of Labor Statistics.
3/ Indexes for periods less than a year, except those for wholesale and retail prices, adjusted for seasonal variation.

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Industrial production

Since the middle of 1932 there have been four periods of increased industrial output, each quite different from the others. Some of the differences are evident on the accompanying chart, which shows the Board's seasonally adjusted index of industrial production and the production of iron and steel, automobiles, other durable manufactures, textiles, meatpacking, other non-durable manufactures, and minerals, all expressed in terms of points in the total index, so that it is possible to see just how much of any movement in the total index is accounted for directly by changes in activity in any of these industries. The indirect effects, such as an increase in the output of materials owing to an increase in output of finished goods, are not shown separately.

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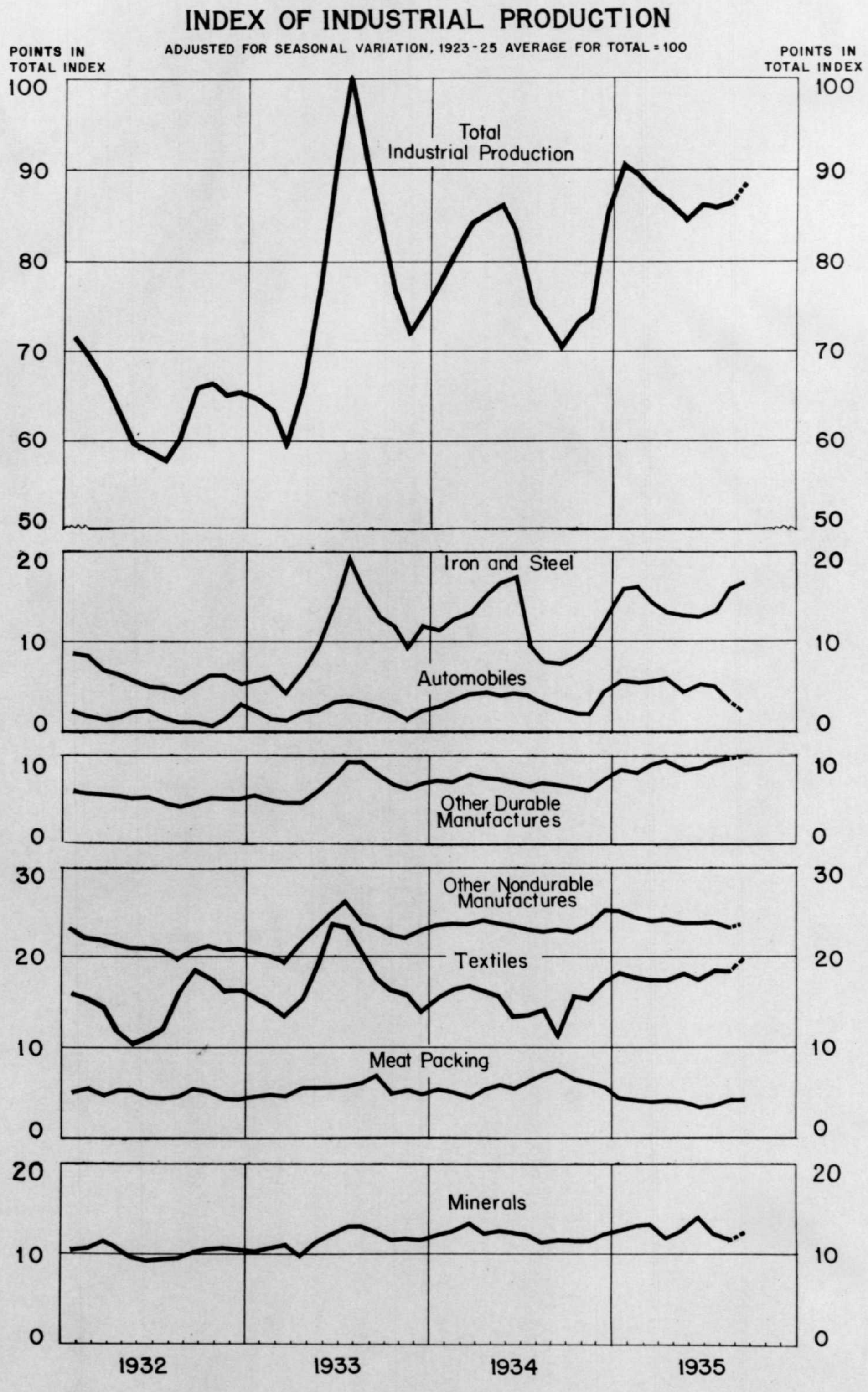
INDEX OF INDUSTRIAL PRODUCTION
ADJUSTED FOR SEASONAL VARIATION, 1923-25 AVERAGE FOR TOTAL = 100
POINTS IN TOTAL INDEX
POINTS IN TOTAL INDEX
100
90
80
70
60
50
Total Industrial Production
Iron and Steel
Automobiles
Other Durable Manufactures
Other Nondurable Manufactures
Textiles
Meat Packing
Minerals
20
10
0
30
1932
1933
1934
1935

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The first of the four advances was in the summer of 1932. It was small in amount and reflected largely an increase in textile output from an unusually low level. By the following March, at the time of the banking crisis, production had declined to about the same level as in the middle of 1932.

The second advance, stimulated by the reopening of banks, the low level of stocks of certain commodities, and the prospect of higher costs and higher prices in many lines, was widespread and exceptionally rapid. Output of semi-finished products showed the most rapid expansion in this period, and the index, which is based in large part on output of such products, advanced 41 points in four months, from 59 percent of the 1923-1925 average in March to 100 percent in July. This advance, partly of a speculative character, was not sustained, however, and beginning in August there was a general, rapid decline in output, which by November had brought the index down to 72 percent.

The third advance in the index, to a high of 86 percent in May 1934, reflected primarily increased output of steel, part of which was purchased for stock in anticipation of price advances announced for the third quarter. Increased automobile production was also a factor in this advance. After May the index declined rapidly, reflecting chiefly an abrupt decline in steel production which continued at an exceptionally low level for several months. There was also a decline in activity at textile mills while meatpacking showed a marked increase, largely as a consequence of the drought. The low point of this downward movement in the index of industrial production was reached in September 1934, partly owing to the textile strike in that month.

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The fourth advance, from this low point of 71 percent in September 1934 to 91 percent in January 1935, was general for the industries shown on the chart, except that in the meatpacking industry activity showed a rapid decline during this period. The level of industrial output reached in January was somewhat higher than that reached in the spring of 1934 and has been largely maintained. This is the first advance that has not been followed in the immediately succeeding months by a sharp decline. The lowest index reported so far this year is 85 percent for May. The most recent index, for September, is 89 percent, and there is no indication of a decline in the immediate future.

Steel production has been maintained generally at a level of between 40 and 50 percent of capacity and currently is at 52 percent, reflecting sustained demand from many sources, especially the automobile and machinery and miscellaneous industries; orders from the railroad and building industries have continued to be in limited volume. Automobile production, which had increased from a low level of 1,400,000 cars for the whole year of 1932 to 2,800,000 for 1934, has totaled 2,900,000 during the first nine months of 1935. Output was sharply reduced in September as preparation was made for new models which are now being produced in increasing volume.

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Lumber output has increased considerably, accompanying an advance in residential building and increased activity in the furniture industry. Textile production as a whole has been unusually stable at a level somewhat higher than was reached at any time during 1934. This higher level, however, has been due chiefly to unusually large production by the wool industry, partly offset in the total by a relatively small volume of output in the cotton textile industry.

At mines output has fluctuated more from month to month this year than in other recent years on account of uncertainties concerning a possible coal strike, which finally occurred in September and was settled after a few says.

Employment and payrolls

Total volume of employment is slightly higher than a year ago and substantially above the lowest level of the depression. It is, however, considerably below the 1929 level and, with a growing number of persons of working age, the volume of unemployment continues at an unusually high level.

The course of factory employment since 1928 is shown on the accompanying chart with separate lines for employment in the industries producing durable manufactures, such as iron and steel, automobiles, machinery, lumber, and furniture, and for employment in the industries producing non-durable manufactures, such as foods, textiles, and leather products. The figures are adjusted for seasonal variation.

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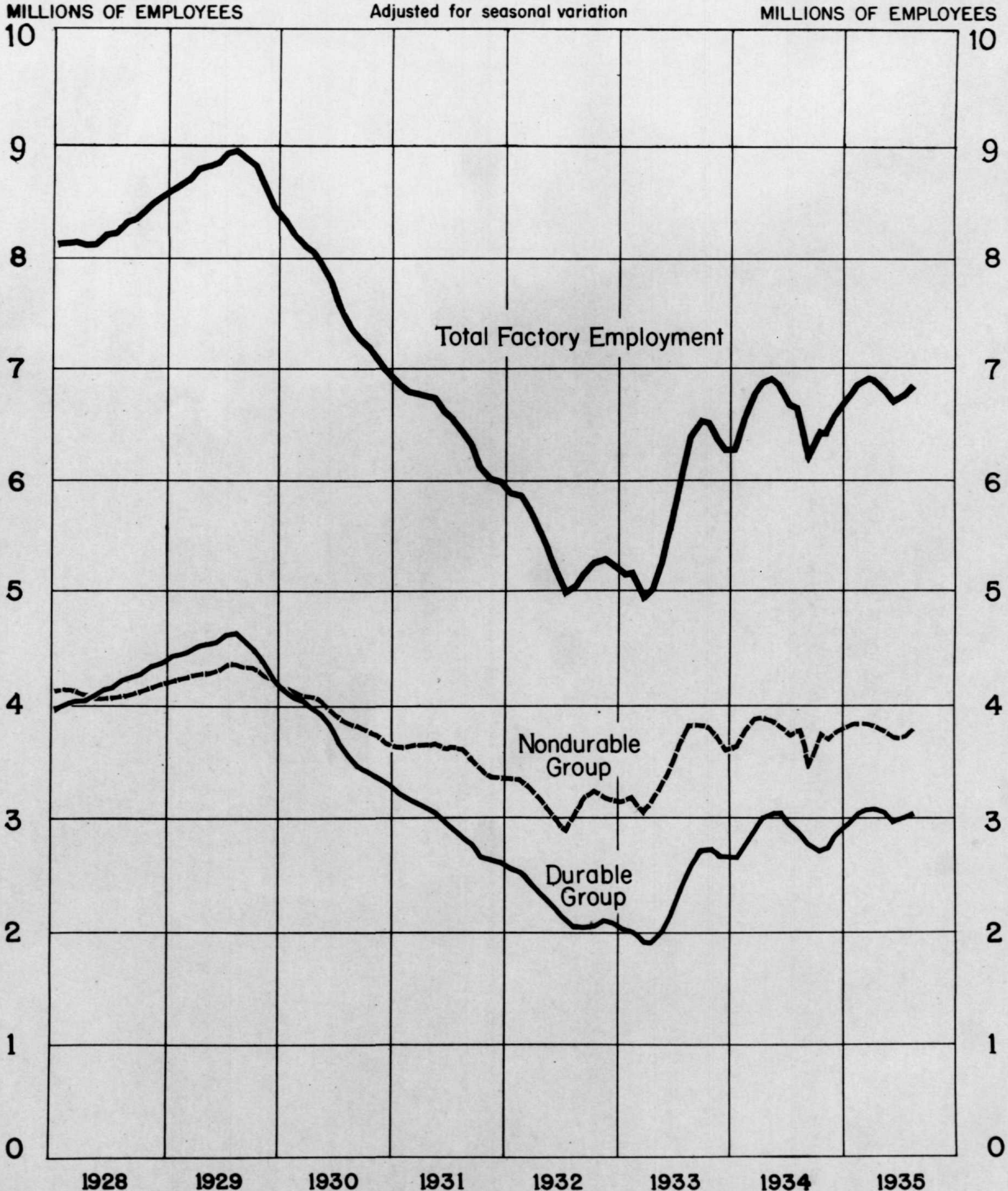
FACTORY EMPLOYMENT



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The total number of wage-earners employed at factories in August was about 6,800,000 as compared with 6,600,000 a year ago, a low of 4,900,000 in the spring of 1933, and a high of 9,000,000 in the middle of 1929. Preliminary figures indicate that in September the number employed showed a seasonal increase.

In 1929, as in most of the earlier post-war years, the number employed in the durable group was slightly larger than in other manufacturing industries. From the high in 1929 to the low point of the depression, the decline in the non-durable group was about 1,500,000 persons, while in the durable group it was about 2,700,000 persons. The subsequent increase reported for the durable group has been larger than for the non-durable group, amounting to about 1,100,000 persons as compared with 900,000. This year employment in both groups has been maintained with little change, with the durable group generally higher than a year ago. Detailed comparisons for leading groups of industries are shown in the following table.

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FACTORY EMPLOYMENT

January-August 1935

	Average number of employees	Change from year ago: Number of employees	Change from year ago: Percent
Total	6,774,700	+111,100	+1.7
Durable group	3,024,000	+119,300	+4.1
Automobiles and parts	445,100	+35,900	+8.8
Machinery	738,100	+57,500	+8.4
Non-ferrous metals and products	224,100	+15,500	+7.4
Lumber and products	465,900	+18,800	+4.2
Iron and steel and products	613,400	+8,600	+1.4
Transportation equipment, other than automobiles	96,400	+1,400	+1.4
Stone, clay, and glass products	185,100	-1,700	-0.9
Railroad repair shops	255,900	-16,700	-6.1
Non-durable group 1/	3,750,700	- 8,200	-0.2
Textile wearing apparel	446,700	+15,200	+3.5
Paper and printing	510,900	+11,600	+2.3
Chemical group, except petroleum refining	292,100	+2,700	+0.9
Textile fabrics	1,023,400	+2,900	+0.3
Leather and products	287,600	-2,700	-0.9
Petroleum refining	70,900	-800	-1.1
Food products	653,900	-29,700	-4.3
Rubber products	108,600	-6,000	-5.3
Tobacco products	79,300	-6,500	-7.5

1/ Includes a few miscellaneous industries not shown separately.

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Employment at mines has fluctuated considerably in recent months, reflecting the threat of a strike in the bituminous coal industry; the average for the year to date, however, is about the same as last year. On railroads employment has shown a seasonal increase since the beginning of the year, while in public utilities little change has been reported.

Payrolls at factories for the period from January to September this year have been about 10 percent larger than a year ago and on the railroads payrolls have also been larger, partly on account of higher wage rates. Payrolls at mines and public utilities have shown little change. The figures for these four groups of industries are given below; for other groups, such as trade, construction, professional and government service, no satisfactory data are available.

AVERAGE WEEKLY PAYROLLS IN FOUR GROUPS OF INDUSTRIES

(In millions of dollars per week)

	Jan.-Sept. 1934	Jan.-Sept. 1935	Change
Total--factories, mines, railroads, public utilities*	183.9	199.0	+15.1
Factories	126.5	138.8	+12.3
Durable group	58.3	66.4	+8.1
Non-durable group	68.2	72.4	+4.2
Mines	12.7	12.4	-.3
Railroads	28.0	30.0	+2.0
Public utilities	22.9	23.8	+.9

*Steam railroad repair shops are included in factories and also in railroads, but the duplication has been eliminated in this total.

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Domestic trade

The total amount of domestic trade has been larger during the first three quarters of 1935 than it was a year ago. Sales of general merchandise in rural areas, as reported to the Department of Commerce by mail-order houses and chain stores, have been substantially larger than in any other year since 1930. Department store sales, as measured by the Board's seasonally adjusted index, have shown an increase during this year and the average for the third quarter was 80 percent of the 1923-1925 average, as compared with 75 percent in the third quarter of 1934. Sales of automobiles showed a considerable advance in the early part of the year and were well maintained until September when they declined prior to the introduction of new models. There has been an increase over a year ago in the sales of chain grocery stores, owing in part to higher food prices, while in chain variety stores sales have been in about the same amount as last year.

Foreign trade

In the first 8 months of this year the value of exports was about the same as in the corresponding period last year while the value of imports was one-fifth larger. The excess of exports amounted to $28,000,000 as compared with $259,000,000 a year ago.

Reflecting chiefly the effects of last summer's drought, exports of meats, lard, and grains showed a marked decline from last year and imports of livestock products, grains, and feeds increased. Exports of cotton showed a marked decrease and the quantity of tobacco exported was also considerably smaller. Exports of automobiles, machinery, and crude petroleum, however, have been in larger volume than last year.

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The increase in imports this year has been general, with marked increases over a year ago reported for sugar and tin, as well as for meats and grains. Imports of crude rubber have been larger in value but slightly smaller in volume.

Prices

Since the beginning of the year the general level of wholesale prices has shown less change than in the corresponding period of any other year since 1929. The course of the index has been gradually upward, with an irregular advance from 78 percent of the 1926 average in the early part of January to 81 percent currently. As is indicated on the accompanying chart, movements in the index have been largely dominated by changes in the prices of farm products and foods, while prices of other commodities as a group have shown little change from the level reached in the autumn of 1933 and maintained throughout 1934.

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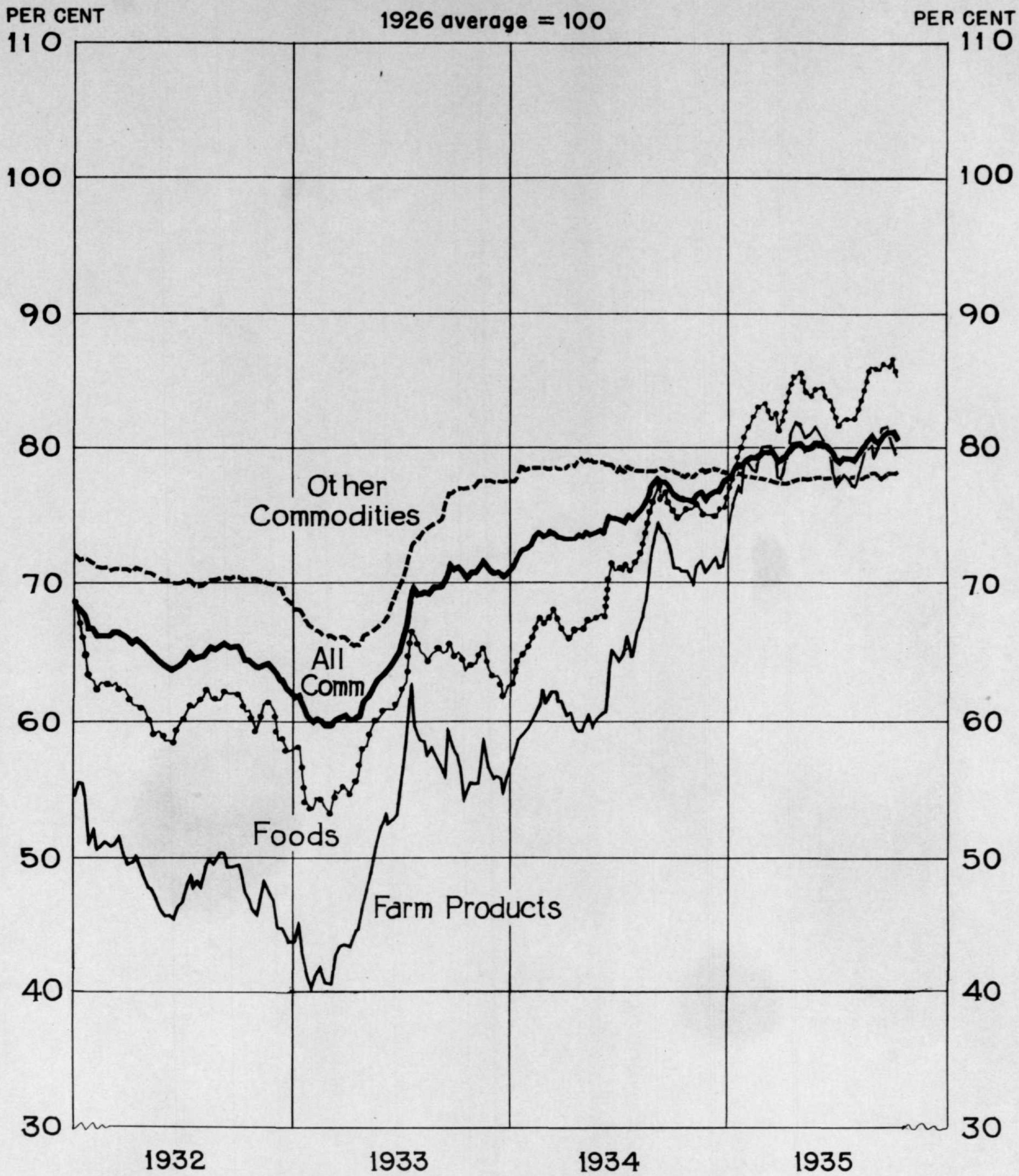
WHOLESALE PRICES

1926 average = 100



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The principal changes in prices of farm products and foods have been marked increases in the prices of livestock and livestock products, a rapid decline in the prices of grains other than wheat, and a smaller decrease in the price of cotton. Wheat prices declined in the early part of the year but from the end of June to the first week of October they advanced rapidly, and although they have declined somewhat since then, they are now higher than at the beginning of the year. Prices of sugar have also shown a considerable increase.

While other commodities as a group have shown little change, there have been marked movements in the prices of several individual commodities. Since last spring prices of hides and leather, silk, textile products, and scrap steel have advanced, and since summer nonferrous metals have also increased. Prices of tires and tubes and crude petroleum have shown declines during the year.

Retail prices of foods advanced considerably during the early months of the year, reflecting chiefly a sharp rise in meat prices. Since April there has been little net change in food prices and at the present time they are approximately 6 percent higher than they were a year ago.

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Profits and dividends

Industrial profits, as indicated by reports of large corporations, were somewhat larger in both the first and second quarters of 1935 than in the corresponding periods of last year. Automobiles, building materials, machinery, and electrical equipment were among the industries showing the most marked increases. Results for the third quarter are not yet available, but known developments indicate that profits were above those of the previous year. Since 1932, when industrial corporations were generally operating at a loss, profits have recovered substantially, but their current volume is still only about one-third of that attained in 1929.

During the first half of 1935 profits reported by public utility companies were somewhat below those of the previous year. Since the recession in this field, however, was much less than for industry generally, profits of utilities are almost two-thirds as high as the best levels reached a few years ago. Railroad companies as a group failed to earn their fixed charges during the first half of 1935, as in other recent years.

Dividend declarations for a large group of corporations during the first nine months of the year as compiled by the New York Times aggregated $2,000,000,000, an increase of about $100,000,000 over the previous year. Several of the largest banks in New York City have recently reduced dividends because of low average yields on available funds.

Member bank deposits

Deposits at member banks have continued to show a rapid growth during 1935, reflecting principally the influence of gold imports and of disbursements

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by the Government of funds raised through the sale of obligations to the banks. The following table shows for recent years the various types of deposits at all member banks. On June 29, 1935, adjusted demand deposits, which exclude United States Government deposits, interbank balances, and reported "float," amounted to $17,530,000,000, the largest amount ever reported. Deposits at nonmember banks, however, and at all banks continued below their previous peak. Time deposits at member banks, excluding those of banks and the Postal Savings System, increased in the first half of this year and at $9,890,000,000 were $1,700,000,000 larger than two years earlier, but considerably smaller than in the period from 1928 to 1931. The recent decline in Postal Savings deposits at banks reflects the direct investment of funds by the Postal Savings System; the amount of deposits held by the public in Postal Savings accounts has shown little change since 1933. The continuous growth in interbank balances, which are now the largest on record, reflects an increase in idle funds held by banks.

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DEPOSITS AT ALL MEMBER BANKS
ON SELECTED CALL DATES

(In millions of dollars)

	Adjusted demand*	Time (excluding Postal Savings)	United States Government	Postal Savings	Inter-bank
1929 June 29	16,324	13,210	348	115	3,766
1933 June 30	12,089	8,192	806	788	3,340
1934 June 30	14,261	9,226	1,658	585	4,397
Dec. 31	15,686	9,456	1,636	452	4,905
1935 June 29	17,530	9,888	779	307	5,442

* Demand deposits, other than those of banks and the United States Government, plus certified and officers' checks, cash letters of credit and travelers' checks, and due to Federal Reserve banks (deferred credits), minus cash items reported as on hand and in process of collection.

That the growth of deposits has continued since June, although at a somewhat slower rate than in the second quarter of this year, is indicated by figures for weekly reporting member banks in 91 leading cities, shown on the chart. Adjusted demand deposits at these banks increased by over $200,000,000 between June 26 and October 9, while time deposits showed a small increase, notwithstanding a decrease in Postal Savings deposits, which are included in the figures shown. Balances of domestic banks continued to increase, and there has also been some growth in recent weeks in deposits of foreign banks, reflecting the movement of short-term funds from abroad.

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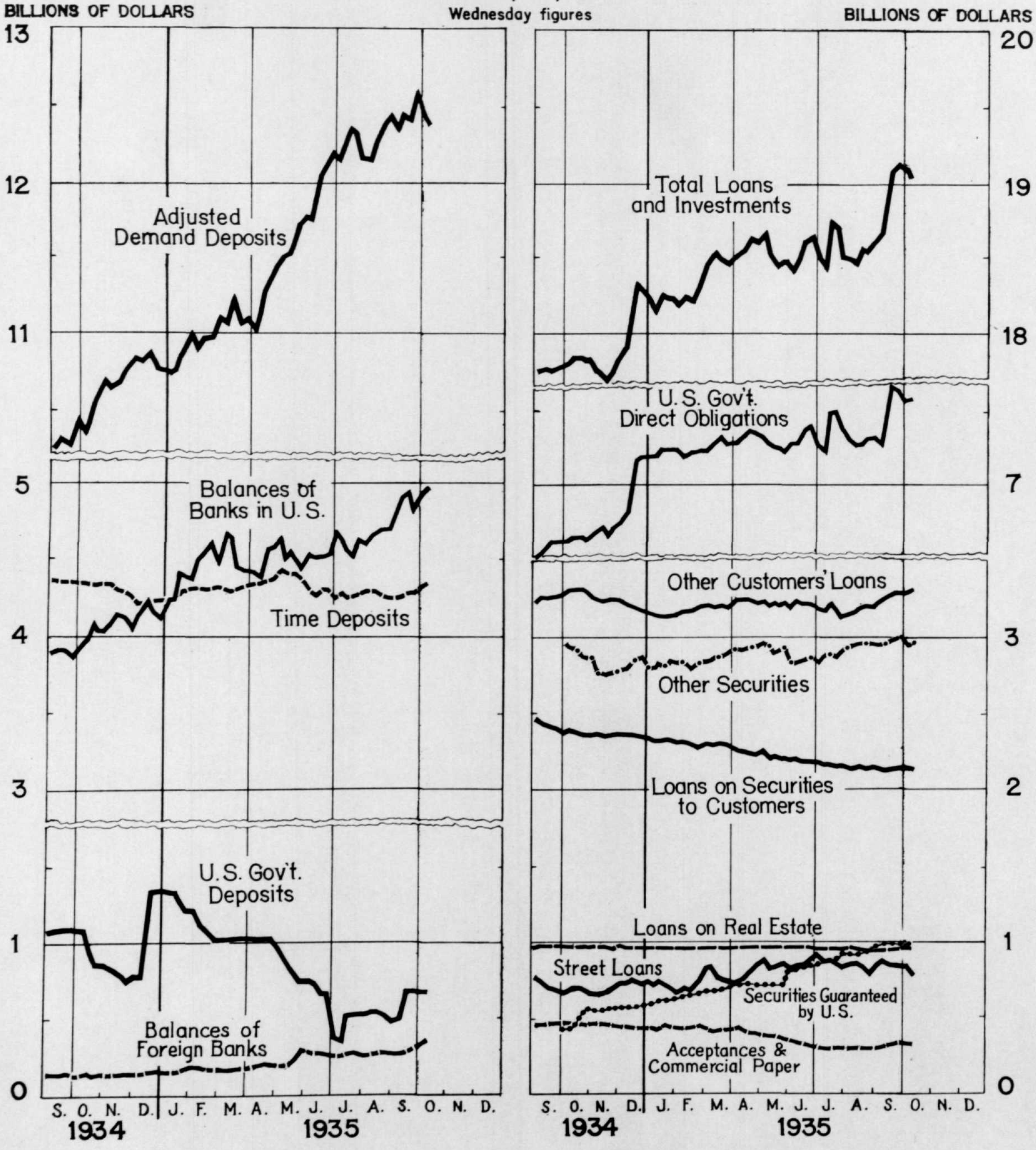
MEMBER BANKS IN LEADING CITIES
DEPOSITS AND LOANS AND INVESTMENTS
Since Sept. 5, 1934



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Bank debits and turnover of deposits

Reflecting an increased volume of financial and other business transactions, the amount of debits to depositors' accounts at banks has been larger in 1935 than in any of the three previous years. At banks in 140 cities outside of New York debits in the first three quarters of this year were 13 percent larger than in the same period of last year. In New York City, where debits are to a considerable extent affected by speculative stock-market activity, the increase amounted to 6 percent.

The increase in debits for the country as a whole has been somewhat slower than the growth of deposits, and therfore the rate of deposit turnover has decreased slightly.

Member bank loans and investments

Loans and investments of member banks have increased this year by a somewhat smaller amount than in the same period last year. This difference has reflected in large part the smaller volume of borrowing by the United States Government and its agencies this year as compared with last. Another factor has been the retirement in July and August of bonds bearing the circulation privilege. Holdings of direct obligations of the United States Government by all member banks showed little change in the first half of the year, while those of weekly reporting member banks in leading cities, as indicated on the chart previously shown, have increased by about $200,000,000 since June. Additional securities purchased have exceeded in amount the circulation bonds retired.

Obligations fully guaranteed by the United States Government increased by $570,000,000 at all member banks in the first half of the year and by $140,000,000 at weekly reporting banks subsequently. Holdings of other securities increased by a somewhat smaller amount.

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Total loans of member banks declined in the first half of the year, but since the end of July loans of weekly reporting banks have increased somewhat. Loans on securities to customers continued to decline, while other customers' loans showed seasonal increases in the spring and again in recent weeks. Loans to brokers and dealers in securities, which are discussed more fully in a subsequent section, fluctuated within a relatively small range, reflecting principally operations of dealers in Government securities.

Money rates and bond yields

Short-term money rates have continued at low levels during 1935, with rates on open-market commercial paper at 3/4 of one percent since January, those on call and time loans on the New York Stock Exchange at 1/4 of one percent since April, and rates on acceptances at 1/8 of one percent throughout the year. Yields on 9-month Treasury bills, which declined in the first half year to .05 of one percent in July, have recently been between .20 and .25 of one percent.

Rates charged on prime loans to customers by banks have shown a further slow decline during the year. Rates at New York City banks now average less than 2 3/4 percent; those in other northern and eastern cities, 3 3/4 percent; and those in southern and western cities, about 4 1/2 percent.

Yields on outstanding Treasury bonds continued to decline during the first half of the year but rose somewhat in August and September as a consequence of declines in prices. Yields on high-grade corporate bonds have been relatively stable at a low level since early in the year.

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Security prices and security loans

There has been a substantial increase in security prices and in stock market activity during recent months, reflecting for the most part cash purchases by investors. The following chart brings out the fact that this rise in prices of securities has not been accompanied by an increase in security loans.

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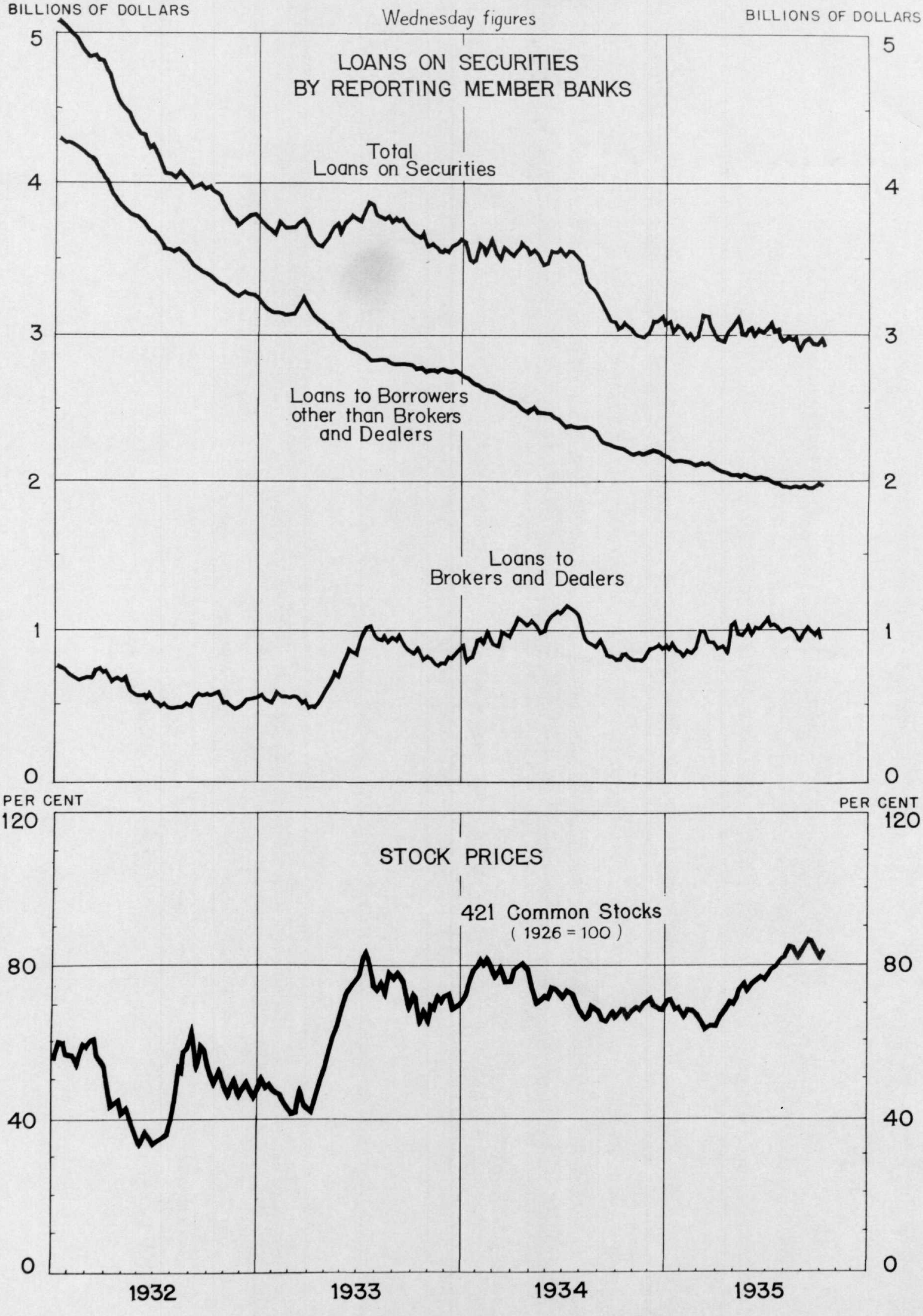
SECURITY LOANS AND STOCK PRICES



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The average increase in stock prices since last March has exceeded 35 percent, according to the most comprehensive available index, while the security loans of the weekly reporting member banks have shown little change. A small increase in their loans to brokers and dealers in securities has been offset by a decrease in their security loans to other customers.

It is an unprecedented development for a rise of 35 percent in stock prices in a short period of time not to be accompanied by an increase in the amount of bank credit used for carrying securities. This unusual condition is due in part to the abundance of funds in the hands of investors and in part to the effects of the Board's Regulation T, which limits withdrawals of cash from margin accounts for the purpose of realizing profits from a rise in stock prices, and thereby reduces the need of borrowing by brokers.

A somewhat paradoxical situation arises out of the nature of the formula for determining margin requirements stated (but not prescribed) in the law and adopted by the Board. The formula provides that a loan on a security must not be greater than whichever is the higher of:

> (1) 55 per centum of the current market price of the security, or
>
> (2) 100 per centum of the lowest market price of the security during the preceding thirty-six calendar months, but not more than 75 per centum of the current market price.

The theory on which this formula was based was to provide for a constant increase of restraining influences as the prices of stocks advanced further and further above their lows. The way the formula works out in practice is not entirely consistent with this theory. Up to the point

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when the price of a stock rises to 133 percent of its three-year low it is permissible to borrow as much as 75 percent of its market price and an increase in price can result in pyramiding of profits. From that point until the price reaches 182 percent of its low, the amount that can be borrowed remains constant at 100 percent of the low price. During that period the percentage of the margin to the permissible loan increases, but the actual amount that can be borrowed remains unchanged and, therefore, no pyramiding is possible. When the price of the security gets above 182 percent of its low, the formula results in a constant 45 percent margin requirement. This is the highest proportionate margin provided for in the formula, but since every increase of $1.00 in the price of the stock from that point permits an increase of 55 cents in the amount that can be borrowed on it, it becomes possible once more to pyramid profits arising from price advances. In this way the formula, though providing a higher margin requirement for stocks that have advanced rapidly, results in removal of the anti-pyramiding restraint when the stocks have advanced beyond 182 percent of their lows.

At the present time stocks in which two-thirds of the trading is done, including many market leaders, have emerged from the anti-pyramiding zone and, though subject to the 45 percent margin requirement, will afford opportunities for pyramiding profits in the event of further advances in prices.

The course of the market in the immediate future requires close observation to determine whether and when a change in the formula or in the level of required margins shall become desirable.

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Capital issues

The supply of funds seeking investment and the low level of money rates brought about a revival of the capital markets beginning early in 1935. New issues, particularly for refunding purposes, were offered in increased volume in March and have continued to come into the market in a volume substantially above that of recent years. Total issues increased from $140,000,000 in January and $100,000,000 in February to $290,000,000 in March. Since then they have averaged about $500,000,000 a month. This compares with average issues of $140,000,000 a month during the years 1932-1934 and of $740,000,000 a month during the period 1925-1930.

Capital issues for the period January 1--September 30, 1935, totaled $3,530,000,000, including $2,560,000,000 for refunding existing securities and $970,000,000 for raising new capital to be used in part in liquidation of bank loans and in part to improve or expand plant and equipment.

The increased flow of new securities into the capital market during 1935 has been chiefly for the purpose of reducing interest charges on existing debt. Nearly three-fourths of the securities were offered to refund outstanding securities into issues bearing lower coupon rates. In fact the total issued for refunding purposes during this nine-month period exceeds the amount of such issues during any post-war year. Refunding issues of the farm

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loan and Government credit agencies totaled $865,000,000, including offerings to redeem $400,000,000 of Federal land bank bonds and $325,000,000 of Home Owners' Loan Corporation bonds guaranteed by the United States as to interest. Public utility companies were the next most important group participating in refunding operations. They issued $760,000,000 for refunding purposes, including twelve issues varying in amount from $30,000,000 to $70,000,000 each and aggregating $530,000,000.

Corporate issues have become a more important factor in the capital market in 1935 than in any year since 1931. Total issues by corporations in the period January 1--September 30 were $1,600,000,000, including $1,370,000,000 for refunding purposes and $230,000,000 for new capital. In addition to the refunding issues offered by public utility companies, which have already been mentioned, $120,000,000 were offered for this purpose by railroads, $340,000,000 by various manufacturing companies, and $110,000,000 by companies producing and refining oil. Corporate issues to raise new capital averaged $35,000,000 a month during the period April 1--September 30, which is in excess of average monthly issues for such purposes in any year since 1931. Stocks, preferred and common, have been issued to only a small degree. Nearly three-fourths of the issues for new capital have been in the form of long-term bonds and notes.

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Treasury finance

During the period July 1 to September 30, 1935, Treasury expenditures, excluding debt retirement, were $1,700,000,000, receipts totaled $1,000,000,000, and the public debt increased by $700,000,000.

On the basis of revised budget estimates, included in a recent statement by the President, the deficit (excluding debt retirement) for the fiscal year ending June 30, 1936, is expected to be about $2,700,000,000, as compared with a deficit of $3,000,000,000 in the fiscal year 1935. Whereas during the fiscal year 1935 the Treasury met a large portion of its deficit by drawing on its previously accumulated general fund balance and the public debt showed an increase of only $1,650,000,000, it is anticipated that during the current fiscal year the deficit will be met principally by borrowing and the public debt will increase by $2,600,000,000.

During the current calendar year the Treasury's refunding program has included about $5,700,000,000 of its bonded debt called for redemption. The retired issues include $1,870,000,000 of 4th Liberty Loan bonds on April 15, the remaining $1,250,000,000 of 4th Liberty bonds on October 15, $1,930,000,000 of 1st Liberty bonds on June 15, $600,000,000 of Consols on July 1 and $75,000,000 of Panama Canal bonds on August 1. About $4,200,000,000 of this bonded debt was retired by exchange offerings; the new issues included $2,310,000,000 of 2 7/8 percent 20-25 year bonds, $570,000,000 of 2 3/4 percent 10-12 year bonds, $860,000,000 of 1 5/8 percent 5-year Treasury notes, and $430,000,000 of 1 1/2 percent 3 1/2 year Treasury notes.

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With the redemption of the remaining 4th Liberties on October 15 the Treasury completed the refunding program which was begun in October 1933 with the first call of the 4th Liberties. Under this program about $8,875,000,000 of bonds have been retired, including all remaining war bonds and practically all pre-war bonds. Redemption of about $6,900,000,000 of these bonds was made through exchange offerings of notes and bonds carrying lower interest rates and with varying periods to maturity and about $1,900,000,000 have been redeemed in cash or are subject to cash redemption. The effect of the exchanges was to reduce the interest charges on that part of the redeemed debt by about $100,000,000 per annum.

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