

# BUSINESS CONDITIONS

AS REPORTED BY THE  
FEDERAL RESERVE BANK  
OF PHILADELPHIA



July 1, 1919.

**N**OTHING has occurred within the past month to cause any change in the existing favorable business conditions and the optimistic outlook. There is an active and also a great latent demand for nearly all kinds of goods, and prices in many lines have continued to advance.

Distribution by retail stores is showing seasonable activity, with the demand for summer merchandise reaching very satisfactory proportions. Wholesalers generally report numerous inquiries and a liberal volume of orders, which are construed as a reflection of more willingness on the part of retailers to provide for future requirements. As a rule, stocks of goods in the hands of wholesalers and jobbers are low, and there is nothing like the quantity and variety of goods available such as existed prior to the war.

Labor troubles in the district have been considerably reduced. The demand for and supply of labor are now about equal.

**Automobiles** Dealers in pleasure cars report that business has never been better, and that sales for April, May and so far in June have broken all previous records. They are exceedingly optimistic about the future and state that the only serious question is to supply the wants of their patrons for new cars, the demand being greater than the supply. Production is somewhat hindered by labor difficulties, but factories are gradually getting back to capacity production, and by fall it is believed that it will be possible to catch up with back orders. Truck

sales dropped off very materially after November 11, (date of armistice) and during the four months following they were far below the 1918 business. A slight improvement was noted in April, and during May sales were in a more favorable ratio to the business of a year ago, although still remaining low.

**Cement** Up to a short time ago the demand for cement and lime was very small. Recently there has been a considerable increase, due to the expansion in building operations. Purchasers are realizing that prices of these materials have advanced very conservatively as compared with other commodities; there seems to be no hope for immediate reductions in prices, and the building trade seems to have accepted the situation on this basis and to have gone ahead.

**Chemicals and drugs** Heavy industrial chemicals show a small increase in activity, but consumers continue to buy according to their current needs. The volume of business of those concerns which dealt in laboratory materials has naturally fallen off since the armistice, as a large part of their sales were made to plants which were heavily engaged on war orders. It is stated that educational and institutional business is reviving, and prospects for consumption in these lines is considered good. The drug market is quite active.

**Clothing** Orders for clothing have been exceedingly heavy, and some manufacturers doubt their ability to secure enough woolens and other materials to fill them. Excellent crop conditions in the west are reflected by heavy demands for clothing, which are expected to insure splendid conditions for the fall and spring. The demobilization of the army still serves to add immensely to the volume of business. No difficulty is experienced in collecting accounts.

**Coal** Conditions have been very much below normal since the first of the year, due to the mild winter and smaller activity in general business. The bituminous market is dull, but there is an increasing demand due to reduction in stock piles and the fact that industrial consumers are rapidly coming to the conclusion that a tight situation in the production of coal will prevail next winter. A large proportion of the highest grade bituminous coals are covered by contract up to next April.

Many householders purchased their supply of anthracite in the spring, but there are also a great many who have not purchased on account of the uncertainty in the real estate business since they are not sure of retaining their homes and show natural reluctance to buying coal because of the possibility of having to move in the fall. Every indication points to a very great demand for anthracite coal next winter. The mines have been producing far below capacity, and the possibility of a shortage is expressed by dealers.

The coke market is very quiet and prices are very little above the cost of production. Many ovens are cold because of the lack of demand from iron and steel making sources.

**Cotton** The business of the cotton mills has shown very great improvement over conditions a few months ago and prices have risen to high levels. These advances are said to be greater proportionately than the advances in raw materials. Conditions around the middle of June show a more settled state, and the wild rush to buy anything at any price seems to have lost some of its momentum.

The export business is good and limited only by the financial ability of foreign buyers to pay. Inquiries are received from all parts of the world; credits are being arranged to facilitate purchases; and indications are that the export business will be very heavy next season.

**Groceries** There has been marked improvement during the past month, and there is a good demand for almost all kinds of goods. A great deal of interest is shown in the purchases of canned goods, of which the supply is apparently not going to be very great, due to the labor scarcity on the farms.

**Iron and steel** The expected improvement in the iron and steel markets has come. The favorable change has been particularly striking of late with the receipt of large orders from automobile concerns and for export. Operations at the steel plants show increases.

**Knit goods** The knit goods industry has undergone a very great change for the better, with trading in almost all lines very nearly up to the level just previous to the armistice. There is an evident scarcity of the more expensive hosiery and

an improved demand, at slightly higher prices, for coarse cotton goods. While business appears to be on a demand and supply basis, with practically no speculative buying, the situation might develop difficulties. Inflated values and shortage of merchandise have stimulated expansion of the industry, thus making it possible that output may be increased to a point where a surplus might be expected. While there is a strong call from overseas for knit goods, this would hardly serve to absorb all of the surplus which is expected in some quarters.

Silk is selling at the highest price recorded in the history of the industry, and importers say that in view of demand, here and in Japan, and the outlook for a diminished crop, prices must go still higher. Some manufacturers have bought up to December at near the peak price. The call for nearby delivery indicates a shortage in manufacturers' hands. Both Japanese and artificial silk are almost unobtainable in any material quantity for spot delivery.

Heavy buying of light-weight underwear for the current season is regarded as refuting the idea that dealers were well supplied, and it is expected that the same situation as to fall underwear will be shown in large repeat orders, many of which may not go through, as many of the mills are operating far under capacity, owing to the impossibility of getting skilled help.

The sweater and fancy knit goods industry is in a very healthy condition, demand being strong and early deliveries called for. Buyers are reported taking about normal quantities.

**Lumber** Greater activity in building lines is reflected in the increased demand for lumber. Stocks on hand are steadily decreasing, as the supplies received do not nearly keep up with the demand. Prices have advanced steadily.

**Meats** The demand for meats continues on the huge scale which has existed for a long time. Prices had attained an extraordinarily high level, but the latest information indicates that a considerable decrease has been effected, due to various causes, such as decreased exports to Europe, change in rations of soldiers from fresh meats to smoked meats, etc.

**Rubber** Sales of rubber tires are about equal to last year. The market is somewhat demoralized, however, by price cutting on the part of some of the larger companies, which has very seriously affected the business of smaller companies. Mechanical goods are moving very slowly. The railroads, steel mills and other large industries were very large consumers of such goods, but their purchases of late have been very small in the aggregate. Collections are generally normal, although some sources report a considerable improvement last year.

**Wool** The demand for raw wool has been very large, and although there was some slackening sometime ago, latest reports indicate a higher level of prices than ever before at the Government auctions. Spinners and top makers are sold ahead for months. Buyers of woollen and worsted goods are buying on a large scale and seem willing to pay practically any reasonable price. Civilian cloths are still in scant supply, and mill production is not up to 100 per cent, due to the slow deliveries of raw materials and the shortage of skilled operatives. Very active business is expected for the balance of the year and possibly longer. Some firms are finding it difficult to finance their business requirements on account of the high prices of merchandise and the increased cost of doing business.

**Financial** There has been no change in the financial situation. The commercial paper rate remains at  $5\frac{3}{4}$  per cent. There has been no increase in the quantity of paper offered by brokers.

Loans made by the Federal Reserve Bank to its members continue large, accommodations in May amounting to \$947,513,000. The average daily amount of earning assets held was \$213,595,000, which is \$5,150,000 more than the previous month.

Federal reserve notes totaling \$20,240,000 were issued during May, compared to \$14,240,000 the preceding month. The transit department handled 2,857,000 items, amounting to \$1,063,792,447. Currency shipments to banks amounted to \$27,192,000, and shipments from banks, \$40,681,000. Debits in the gold settlement fund transactions with other Federal reserve banks amounted to \$556,984,000, and credits, \$570,259,000, exclusive of items for the account of the Treasurer of the United States.

STATEMENT SHOWING THE PRINCIPAL RESOURCE  
AND LIABILITY ITEMS OF MEMBER BANKS  
IN PHILADELPHIA, SCRANTON,  
CAMDEN AND WILMINGTON

	At the close of business		
	June 13, 1919	May 16, 1919	June 14, 1918
	(In thousands of dollars; <i>i. e.</i> 000's omitted)		
Number of banks reporting.....	56	56	49
United States bonds to secure circu- lation .....	\$11,597	\$11,597	\$12,975
Other United States securities.....	60,356	34,595	24,337
Certificates of indebtedness.....	95,507	142,781	43,017
Total United States securities owned .....	167,460	188,973	80,329
Loans secured by United States securities	177,431	141,913	38,782
All other loans and investments.....	654,350	624,097	637,622
Total loans and investments.....	999,241	954,983	756,733
Reserve with Federal Reserve Bank....	63,844	62,341	59,907
Cash in vault.....	18,011	19,300	20,179
Net demand deposits on which reserve is computed .....	657,782	661,559	589,093
Time deposits .....	20,776	21,214	14,571
Government deposits .....	71,676	27,166	72,021

**STATEMENT OF THE FEDERAL RESERVE BANK**

RESOURCES	June 16, 1919	Month Ago	Year Ago
Gold reserve .....	127,862,021	130,575,301	153,314,821
Legal tender, silver, etc...	212,916	391,826	899,451
<b>Total reserve ....</b>	<b>128,074,937</b>	<b>130,967,127</b>	<b>154,214,272</b>
Bills discounted—members. Secured by Govern- ment war obligations	182,319,584	182,468,459	—————
All other .....	15,651,029	13,407,560	*48,528,393
Bills bought in open market	900,565	921,672	20,292,591
United States securities...	22,070,400	20,075,400	7,158,400
<b>Total earning assets</b>	<b>220,941,578</b>	<b>216,873,091</b>	<b>75,979,384</b>
Mutilated and fit notes on hand:			
Federal reserve notes:	11,596,940	10,095,567	11,590,510
Federal reserve bank notes .....	437,032	408,019	—————
Due from depository banks —war loan deposit ac- counts .....	98,842,832	49,880,323	—————
Uncollected items .....	94,177,742	63,270,018	76,223,401
All other resources .....	3,124,125	2,993,593	1,661,288
<b>Total resources ..</b>	<b>557,195,186</b>	<b>474,487,738</b>	<b>319,668,855</b>
<b>LIABILITIES</b>			
Capital paid in.....	7,632,550	7,596,950	6,938,500
Surplus .....	2,608,344	2,608,344	—————
Profit and loss.....	—————	—————	220,238
Government deposits ....	25,573,729	18,040,306	30,855,270
Due to members—reserve account .....	106,877,856	96,420,351	97,727,033
Collection items .....	62,913,770	60,475,215	31,737,087
<b>Total gross deposits</b>	<b>195,365,355</b>	<b>174,935,872</b>	<b>160,319,390</b>
Government deposits—spe- cial account .....	109,893,200	52,654,991	—————
Federal reserve notes out- standing .....	217,703,870	215,007,465	150,758,990
Federal reserve bank notes outstanding .....	20,020,000	18,328,000	—————
All other liabilities .....	3,971,867	3,356,116	1,431,737
<b>Total liabilities ...</b>	<b>557,195,186</b>	<b>474,487,738</b>	<b>319,668,855</b>

\*Total amount of discounts.

**BUSINESS INDICATORS**

	June 16, 1919	Percentage increase or decrease compared with	
		Previous month	Year ago
<b>Philadelphia banks:</b>			
Loans .....	\$839,075,000	+7	+33
Deposits .....	665,969,000	0	+4
Ratio of loans to deposits.....	126%	118 *	98 *
<b>Federal Reserve Bank:</b>			
Discounts and collateral loans.....	\$197,970,000	+1	+310
Cash reserve.....	40.2%	41 *	68 *
Ninety-day discount rate.....	4¾%	4¾*	4¾*
Commercial paper rate.....	5¾%	5¾*	6 *
	May, 1919	Percentage increase or decrease compared with	
		Previous month	Year ago
<b>Bank clearings:</b>			
In Philadelphia.....	\$1,726,567,113	+6	+1
Elsewhere in district.....	113,068,451	-4	+1
Total .....	\$1,839,635,564	+5	+1
Building permits.....	\$5,960,140	+42	+256
Postoffice receipts, Philadelphia.....	\$1,137,850	+10	+5
Commercial failures in district (per Bradstreet's) .....	28	26 *	39 *
<b>Commodity prices:</b>			
Annalist (food prices), June 14...	302.275	-4	+7
Dun's, June 1.....	\$227.973	+3	+1
Bradstreet's, June 1.....	\$18.0900	+5	-5

\*Actual figures.



## ON THE HORIZON

An interesting phase of the prohibition law which becomes effective July 1, is presented by a statement of the New York Sun to the effect that 1,000,000 men will be thrown on the labor market.



With reference to the business situation, a recent Babson report states that while there is no present indication of any drastic reversals during 1919, fundamental conditions make almost certain a reaction at a time not so very far in the future.



The control which England has exercised for so many years on the price of silver will be broken by the export combination of silver producers in this country which is to be organized under the Webb law. England is the principal purchaser and the United States the principal producer. England has been enabled to fix the price in the past due to lack of organization in this country.



“Fifty per cent of our commerce should be carried in American bottoms and the other 50 per cent should be carried by ships of other nations. If we planned to carry more than 50 per cent we would oblige many of our ships to return in ballast and therefore we could not hope to have low freight rates,” according to Chairman Hurley, of the Shipping Board.



The continuation of our exports on an enormous scale since the signing of the armistice was at first explained by the overflow of war goods, but this stand is no longer tenable. The latest figures available show that exports are keeping up with very little diminution, and April made a new high record with \$715,000,000. The great majority of this immense amount of material consists of food-stuffs and other materials suitable for the occupations of peace.

In reviewing the business situation in the iron and steel industry, Judge Gary gives it as his opinion that "at present there is a perceptible and gradual improvement. It seems probable that this will continue and increase. As I have said before more than once, there is a large and fairly profitable business ahead. The necessities of the purchasing public are piling up. From present appearance, the production this year will exceed all former records. There is still room in this country for the optimist, but little place for the pessimist."

The Wall Street Journal draws attention to the recent impairment in reserves of member banks in the New York city district and points out that "the advantages of the reserve system will now be brought into play. This is the very emergency for which a rediscounting institution has been established. In the old days if the banks could not restore their surplus reserve by curtailing loans the United States Treasury was importuned to place special deposits with them. On occasions when the situation was serious the banks had to resort to emergency currency or other make-shift devices."

Frank A. Vanderlip, at a luncheon of the Merchants' Association of New York, predicted that America would soon become the financial center of the world, as this is the first time in history that one nation has been the reservoir of world's credits and at the same time the storehouse of raw material. He believes that America could make a short cut to industrial peace the same as she made a short cut to military peace, but the problem of an adjustment between capital and labor must be approached with a liberalism on the part of employers that must go further than anything that has been seen heretofore. The nation that is to dominate the world, he said, will be the nation that first effects harmonious relations between capital and labor.

The metallic money stock of the United States has undergone an important change in the five-year period since the outbreak of the war. Our holdings of gold have increased by more than \$1,000,000,000, or 50 per cent, while our holdings of silver have decreased by \$200,905,017, or 26 per cent. The changes were brought about by the heavy payments in gold for goods purchased by the Allies before our entrance into the war, and the reduction of our silver holdings to provide Great Britain with silver to pay for war supplies purchased from India. \* \* \* The world has a population of approximately 1,500,000,000, and the gold used by the world as money is, roundly, \$10,000,000,000, a per capita holding of little more than \$6. In the United States alone, gold holdings per capita are \$29.



Babson's point out that foreign trade must in the long run be a matter of exchanging goods for goods, and that it is impossible to keep on exporting twice as much as we import. Imports must rise or exports decline. They use the experience of England to draw conclusions as to the policies which this country should pursue. Re-exporting is suggested as the way out of the difficulty. "A country engaged in the re-export business receives the profits on merchandising and transportation. Its domestic producers have first choice at lowest prices of the materials handled and it can gradually build up a preference for its own product in supplying foreign markets. It is, above all, in a position to buy from the people to whom it wishes to sell." At present this country does a very small amount of re-export business, but it could be greatly encouraged by the establishing of free ports at commercially strategic points on our seaboard.



A long and slow period of declining prices, covering ten years and possibly more, is foreseen by A. C. Miller, of the Federal Reserve Board, who, in a recent address, contends that, for the present, prices may go even higher than they are today and that they will be sustained on a relatively high and, perhaps, periodically uneven level for a decade. Dr. Miller finds that high prices are due to currency inflation rather than to any other economic force. By means of increased production and continued saving on the part of the people, and only by these means, can prices come down. To suddenly and by artificial means deflate the currency would have bad effects which would not remedy matters; therefore, the

world should reconcile itself and its affairs to a long period of high prices. The thirty per cent drop in prices noted in 1865, after the American Civil War, cannot be taken as a criterion, he says. There may be even a further rise in prices during the next year, before the long downward trend is felt.

A recent report to the Secretary of the Treasury by a committee appointed to investigate the traffic in narcotic drugs disclosed that the consumption of opium per capita in the United States is from ten to sixty times that in other nations. Of 4,092 manufacturers of patent and proprietary medicines and druggists' preparations, 382 were using opium in their preparations, 300 morphine in some form, 138 heroin, 142 diacetyl morphine (heroin), and 136 cocaine or its derivatives.

They report an increase in the drug evil in large cities and that "in particular in those where more than the usual attention is being directed to the eradication of the drug addiction." The estimated economic loss due to this evil, aside from the physical and mental suffering, is placed at more than \$200,000,000.

Apropos of our new discount market, the New York Journal of Commerce writes: "The progress that is being made by foreign banking houses which have established branches in New York or have affiliated themselves with American institutions is regarded by financiers as one of the striking elements in the present international financial situation. It is already resulting in broadening the local discount market and in establishing much closer communication between the financial community of the United States and financial markets abroad. In the opinion of good observers, this development would not today be in progress, certainly upon the scale now noted, were it not for the existence of a strong central banking organization in the United States—the strongest, indeed, in the world today. Foreign banking systems are in practically all cases so largely inflated and overexpanded, and are so handicapped by the conditions growing out of the war that they are no longer in position to play the part in international financial affairs that they have taken in the past. This naturally transfers a large responsibility for financing to the United States, which it is believed able to carry simply as a result of its present banking organization."

Herbert C. Hoover, president of the Interallied Food Commission, in discussing methods of aiding Europe, said recently: "Altogether, the dominant problem in the rehabilitation of Europe is one wholly of credits with which to buy overseas, and if such financing can be provided Europe would be on a self-supporting basis within another year. Whether the United States will undertake a third stage in the intervention in Europe must be for Congress to decide. The first stage was to end the war, the second to feed the people until peace and harvest.

In my personal view, the largest part of the credits required from the United States should be provided by private credits, and we should, except for certain limited purposes, stop the lending of the money of our Government. \* \* \* If we undertake to give credits we should undertake it in a definite, organized manner. We should have consolidated, organized control of the assistance we give in such a way that it should be used only if economy in imports is maintained and if the definite rehabilitation of industry is undertaken—if the people return to work, if orderly government is preserved, fighting is stopped, disarmament is undertaken and there is no discrimination against the United States.

If these things are not done Europe will starve in spite of all we can do. The surplus of our productivity could not support a Europe of today's idleness if every man of us worked fifteen hours daily."

