

BUSINESS CONDITIONS

AS REPORTED BY THE
FEDERAL RESERVE BANK
OF PHILADELPHIA



August 1, 1919.

THE general business situation continues to show an increasing demand for merchandise at advancing prices and fundamental industries operating on a larger scale. Many reports, however, emphasize the abnormally high prices and sound a warning of the day that they feel is bound to come when reaction will take place.

Retail trade shows wonderful activity, but considerable difficulty is experienced in securing goods, especially of the better qualities. Collections are said to be unusually good for this period of the year.

Building Building permits issued in the cities of the third Federal reserve district have shown a steady and gratifying increase since the beginning of the year. Detailed figures for fourteen of the larger cities follow:

BUILDING PERMITS ISSUED IN JUNE

	1919		1918	
	No.	Cost	No.	Cost
Altoona	100	\$183,693	54	\$22,691
Allentown	47	114,450	21	125,925
Atlantic City	92	146,944	71	34,876
Camden	118	274,204	33	169,995
Harrisburg	40	480,850	21	28,800
Lancaster	59	102,108	16	14,030
Philadelphia	1,073	7,354,625	694	1,671,900
Reading	225	251,000	133	84,850
Scranton	46	165,310	20	43,085
Trenton	142	388,971	41	55,595
Wilkes-Barre	59	42,832	69	56,527
Williamsport	13	11,975	6	17,025
Wilmington	196	711,509	118	471,687
York	57	42,722	37	6,530
Total for June	2,267	\$10,271,193	1,334	\$2,803,516
Total for May	2,224	7,900,952	1,392	2,722,037
Total for April	2,158	6,005,097	1,510	3,755,123
Total for March	1,815	3,987,131	1,193	2,665,585
Total for February	832	1,696,956	550	1,158,637
Total for January	629	1,411,290	388	2,118,645

Carpets and rugs Demand for carpets and rugs is very active and there is a market for all the goods that can be produced. Production is hindered, however, by the scarcity of skilled labor. Prices rule very fair.

Chemicals and drugs The demand for heavy industrial chemicals has not been very active as buyers seem to be awaiting developments, and, possibly, lower prices. Collections have been about normal and debtors do not show disposition to ask for unusual extensions of time. The credit department of one large chemical manufacturing concern, however, feels that it is time to watch collections closely as general business approaches a boom.

Drugs are very active and business during the past half year shows a considerable increase over a similar period a year ago. The world market for medicinal products is practically bare and a large growth in export trade is expected. Collections are good and one company ascribes this condition to the use of trade acceptances.

Clothing The volume of business in the clothing line is larger than ever before, according to some reports. Cloth is scarce, and the employment question is causing difficulty. These two factors combine to hold production in check. Collections show considerable improvement, and one large firm reports that the amounts outstanding are considerably less than a year ago, in spite of the larger volume of business.

Coal Bituminous and anthracite coal have been in much larger demand during the past month than for some time heretofore. High-grade bituminous coal is very difficult to secure. Prices have risen to levels beyond the old prices established by the United States Fuel Administration, which makes the situation difficult for those consumers who have been deferring their purchases in the expectation of lower prices, and many will be forced to take coal of lower grades.

The anthracite situation is also rather deplorable because the diminished production during the past half year has produced a shortage which has been estimated at between ten and eleven million tons for that period. The scarcity of laborers and difficulties in securing cars will make it extremely difficult to recover this loss in any great measure. Prices of anthracite are from fifty cents to one dollar above the old prices of the Fuel Administration.

Production of bituminous coal during the first six months of the year should have reached two hundred and seventy-five million tons in order to avert later difficulties, according to some experts; the actual production was only slightly in excess of two hundred million tons.

Collections are much improved, and large numbers of buyers are said to be willing to deposit cash in advance for any orders placed. The outlook for future business during the fall and winter is good.

Cotton The rather poor reports of the condition of the cotton crop have caused the market to become much stronger, and this has frightened a great many users of cotton yarns into buying ahead, fearing that cotton may become much higher than it is at present. The cotton yarn market is becoming more and more active and prices are constantly rising, attended with scarcity of certain varieties. Sellers are apparently somewhat more conservative than buyers, and are unwilling to make their commitments too far ahead because of their admitted inability to forecast what the future will bring.

The past five months have witnessed a complete reversal of conditions in the cotton fabric and garment lines. Prices have regained their losses and the demand for the present and future seems to be greater than the supply. Collections are excellent.

Furniture Furniture houses are optimistic about the future for quite a long time ahead, and they are unable to furnish quotations or accept orders for anything earlier than fall, and in many instances, 1920 delivery. Profits are not as large as they might be, due to constantly advancing prices of both materials and labor. Collections and settlements are prompt, and many houses that have not taken advantage of cash discounts since 1914 are availing themselves of this privilege.

Groceries The grocery business is more active now than ever before, according to some leading wholesalers. They find it easy to make sales, but are concerned over the extremely high prices which make it necessary to use a large amount of capital and would cause considerable loss in a declining market. They are trying to do business conservatively, but the demand makes it necessary to carry large stocks.

Export demand, especially for fruits, continues strong and serves to increase prices by producing a scarcity in the home markets. Canned goods are not running as strongly as other lines, and the government-owned stocks act as a drag on the market. Collections are very good, payments being paid promptly and bills anticipated in many instances.

Hosiery There is a scarcity of the better grades of hosiery, and many lines are being withdrawn because manufacturers are booked up three months ahead, which is as far as many of them care to sell. Demand is so strong that full prices can be obtained. Values continue to advance, but there is some feeling that they are becoming excessive. The outlook is for continued good business. The employment problem is making trouble as demands for higher wages are continuous. Collections are excellent, and one large firm states that it has not a single overdue account on its books.

Iron and steel The demand for iron and steel shows steady improvement in the Philadelphia market. Buying is not spectacular, but the increasing orders have a degree of steadiness which is more reassuring than the rather irregular advances in many other lines. Export demands and inquiries are larger. The railroads are not purchasing in large quantities as yet, and demand for structural steel is still low, though showing some increase. Prices are holding firm. Mills which have had large government orders still report considerable sums unpaid, but collections on purely peace business are somewhat better than in pre-war times.

Leather The raw material market for sole leather and all upper leathers has attained marked gains during the past month. Both domestic and foreign demand for leather has never been greater, and it is hoped that the period will not be far distant when the output of the tanners will be sufficiently increased through added facilities for acquiring raw material to fill the gap and make the market steadier. Collections are coming in satisfactorily, and dealers feel optimistic about the business future for some time to come.

Notions Sales for the last month have been considerably ahead of the previous year. Advance orders for shipment later in the year also exceed those of last year. Prices are advancing, and indications point to good business during the next six months. Collections are good.

Paper Business has shown considerable improvement lately.

Orders show such an increase that the plants are able to operate at or near capacity basis. Prices have remained very low, but it is felt that the selling price will assume a more nearly proper relation to costs in the near future. Good business is expected for some time to come, and foreign buyers show greater activity, as there is not much competition from foreign producers.

Shoes More business is being offered the factories than can be handled. Raw materials are advancing rapidly in price and labor is continually demanding increases in wages. Prices of the finished products are reaching such high levels that some manufacturers anticipate that the demand will suffer a set-back at a later date, though good business is expected for some time to come. The excellent state of collections indicates active business with rapidly moving stocks.

Underwear The demand for underwear is very great, notwithstanding the high prices which are prevailing, and the trade seems anxious to get manufacturers to accept orders for delivery next year. Because of the unsettled condition of labor and prices, there is little inclination to do this. While conditions are good at this time, and collections are satisfactory, there is a feeling that it is well to be cautious and not make commitments too far ahead.

Wool The wool market is firm, with a strong demand for good staple fine wools. Manufacturers are well employed, and are able to secure business as far ahead as they are willing to accept orders. There is an insistent demand for goods for prompt delivery. The domestic wool clip has been largely moved out of the hands of producers at advancing prices. In the scramble to secure goods, buyers are not using the same degree of care that they usually would. This lack of caution is disturbing.

Financial There has been no striking change in the financial situation in this city during the past month. Loans made by the Federal Reserve Bank to its members reached a new high point in June, aggregating \$1,088,293,000. The average daily amount of earning assets was \$216,680,000, a small increase over the preceding month.

Federal reserve notes issued during the month totalled \$17,200,000, which is a decrease of \$3,040,000 from May. Reserve notes in actual circulation at the end of the month were \$203,557,125. The transit department handled 2,948,634 items, amounting to \$1,134,387,355. Currency shipments to banks and received from banks show a small decrease.

Average money rates charged by banks in Philadelphia during the thirty-day period ending July 15, 1919, follow:

	High	Low	Average
Customers' prime commercial paper:			
30 to 90 days	6	5¼	5½
4 to 6 months	6	5	5½
Prime commercial paper purchased in open market:			
30 to 90 days	5½	5	5½
4 to 6 months	6	5¼	5½
Loans to other banks	6	4¾	5
Bankers' acceptances of 60 to 90 days:			
Endorsed	4 ⁵ / ₁₆	4¼	4¼
Unendorsed	4 ³ / ₈	4 ⁵ / ₁₆	4 ⁵ / ₁₆
Loans secured by prime stock exchange collateral or other current collateral:			
Demand	6	4	5½
3 months	6	5¼	5½
3 to 6 months	6	5¼	5½
Cattle loans	6	5½	5¾
Commodity paper secured by warehouse receipts, etc.	6	6	6
Loans secured by Liberty bonds, Victory notes and certificates of indebtedness	6	4½	5

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

	At the close of business		
	July 11	June 13	July 12
	<u>1919</u>	<u>1919</u>	<u>1918</u>
	(In thousands of dollars, i. e. 000's omitted)		
Number of banks reporting	56	56	49
United States bonds to secure circulation ...	\$11,597	\$11,597	\$12,970
Other United States bonds	51,602	60,356	21,803
Certificates of indebtedness	47,122	95,507	32,859
Total United States securities owned ...	<u>110,321</u>	<u>167,460</u>	<u>67,632</u>
Loans secured by United States securities ...	172,100	177,431	38,936
All other loans and investments	655,108	654,350	600,349
Total loans and investments	<u>937,529</u>	<u>999,241</u>	<u>706,917</u>
Reserve with Federal Reserve Bank	68,818	63,844	53,131
Cash in vault	19,549	18,011	20,149
Net demand deposits on which reserve is computed	662,088	657,582	568,486
Time deposits	21,187	20,776	15,765
Government deposits	30,413	71,676	45,388

CLEARING HOUSE REPORTS OF CHARGES TO DEPOSITORS' ACCOUNTS

	<u>Week ending</u> <u>July 16, 1919</u>	<u>Week ending</u> <u>June 18, 1919</u>
Altoona	\$3,697,000	\$3,155,000
Chester	4,499,000	4,511,000
Harrisburg	4,082,000	4,495,000
Johnstown	5,545,000	5,093,000
Lancaster	4,860,000	4,758,000
Philadelphia	802,700,000	819,115,000
Reading	4,457,000	4,454,000
Scranton	14,967,000	13,704,000
Trenton	11,228,000	12,927,000
Wilkes-Barre	7,459,000	7,933,000
Williamspport	4,861,000	4,708,000
Wilmington	10,654,000	13,271,000
York	5,257,000	5,328,000
Total of clearing houses	<u>\$884,266,000</u>	<u>\$903,452,000</u>

STATEMENT OF THE FEDERAL RESERVE BANK

RESOURCES	July 18, 1919	Month Ago	Year Ago
Gold reserve	144,513,896	125,139,960	155,752,702
Legal tender, silver, etc...	241,466	281,455	883,643
Total reserve	144,755,362	125,421,415	156,636,345
Bills discounted—members. Secured by Government war obligations.....	165,014,933	171,687,159	—————
All other	19,557,616	15,818,596	66,563,036*
Bills bought in open market	758,668	894,409	12,165,795
United States securities...	25,178,000	22,065,400	2,928,900
Total earning assets	210,509,217	210,465,564	81,657,731
Mutilated and fit notes on hand:			
Federal reserve notes:	14,944,400	13,258,660	12,676,895
Federal reserve bank notes	107,900	267,424	—————
Due from depository banks —war loan deposit ac- counts	41,855,225	67,009,437	—————
Uncollected items	77,301,618	101,687,579	72,574,154
All other resources	2,532,109	4,823,444	1,341,563
Total resources ..	492,005,831	522,933,523	324,886,688
LIABILITIES			
Capital paid in.....	7,654,200	7,636,150	6,938,500
Surplus	5,311,336	2,608,344	—————
Profit and loss.....	276,979	—————	643,279
Government deposits ...	6,345,483	20,943,199	3,170,010
Due to members—reserve account	102,809,257	90,198,846	105,154,489
Collection items	85,102,243	72,377,329	38,259,452
Total gross deposits	194,256,983	183,519,374	146,583,951
Government deposits—spe- cial account	43,771,982	88,913,519	—————
Federal reserve notes out- standing	216,901,220	215,937,115	170,353,140
Federal reserve bank notes outstanding	23,096,000	20,240,000	—————
All other liabilities	737,131	4,079,021	367,818
Total liabilities ...	492,005,831	522,933,523	324,886,688

*Total of bills discounted.

BUSINESS INDICATORS

	July 18, 1919	Percentage increase or decrease compared with	
		Previous month	Year ago
Philadelphia banks:			
Loans	\$776,607,000	-7	+28
Deposits	675,753,000	+1	+10
Ratio of loans to deposits.....	115%	126 *	98 *
Federal Reserve Bank:			
Discounts and collateral loans	\$184,572,000	-2	+177
Cash reserve	45.1%	40.9 *	67.6 *
90-day discount rate	4¾%	4¾ *	4¾ *
Commercial paper	5¾%	5¾ *	6 *
	June, 1919	Percentage increase or decrease compared with	
		Previous month	Year ago
Bank clearings:			
In Philadelphia	\$1,850,481,109	+7	+9
Elsewhere in the district.....	113,308,335	+0.3	+6
Total	\$1,963,789,444	+7	+8
Building permits, Philadelphia	\$7,354,625	+23	+340
Post office receipts, Philadelphia	\$1,003,620	-11	+6
Commercial failures in district (per Bradstreet's)	25	28 *	33 *
Commodity prices:			
Annalist (food prices), July 19....	307.763	+2	+8
Dun's, July 1	233.707	+2	0
Bradstreet's, July 1	\$18.8964	+4	-1

*Actual figures.



ON THE HORIZON

The consensus of opinion of bankers who have just returned from Europe is that the war-ridden European nations will need about \$2,000,000,000 within the next twelve months.



Prominent bankers and representatives of the fruit and produce trades have formed a \$50,000,000 corporation to cover the production and marketing of fruit in this country.



The State Department has announced that tourist travel to France will not be permitted this year. Business men will be permitted to send agents, but return accommodations will depend on troop movements. Undue travel to Great Britain will also be restricted.



Governor Harding, of the Federal Reserve Board, who is well informed on cotton in this country, says that despite the less favorable Government report, he believes the cotton crop will amount to 12,000,000 bales.



The government of Jamaica has instituted a tax on commercial travelers representing foreign business houses. Commercial travelers are required to register and pay an annual tax of \$48.66. Failure to so register and pay the tax involves heavy penalties, including imprisonment.



According to H. E. Miles, of the U. S. Training Service, the country would be short 4,000,000 workers if every soldier returned to his job. The situation is attributed to the falling off in immigration during the war, and to the increase in emigration since the armistice was signed.



The National Free Zone Association has been formed for the purpose of urging the establishment of free ports in the United States. The value of such ports to our foreign trade and manufacturing industries would be very great and the movement is to be heartily commended.



The Wall Street Journal asks: "Are we now approaching an era of longer datings for notes, bills and bonds? The weight of financial authority inclines to the view that we are. It is probably true the measure of mercantile efficiency for a time will not be so much the ability to settle in cash as the facility to obtain credit."



Incorporations of new enterprises during the month of June broke previous records for two decades, according to the figures published by the Journal of Commerce. The total was \$1,256,000,000 for concerns with authorized capital of over \$100,000. This compares with \$748,683,000 in May.



The Department of Agriculture estimates that production of tractors during 1918 totaled 132,697. The estimate for 1919 is placed at 300,000. The widespread demand for agricultural products is producing an enormous call for improved implements in this country and Canada, especially in view of the inability of the farmers to secure adequate assistance in the preparation and harvesting of crops.



In discussing the attitude of the United States Steel Corporation toward the labor situation, Judge Gary recently said: "As you know, we do not confer, negotiate with nor combat labor unions as such. We stand for the open shop, which permits a man to engage in different lines of employment whether he belongs to a labor union or not."



The report of the Bureau of Navigation for the fiscal year ending June 30, 1919, shows that on that date this country possessed 27,300 ships, totalling 12,800,000 gross tons. In addition the army and navy possessed fifty-six ocean steamships aggregating 406,000 gross tons, which may be added to the total. There are 7,300,000 tons of sea-going vessels of over 1000 tons each in our merchant marine. During the fiscal year building aggregated 3,860,000 tons.



Canada has enormous coal resources, but the coal is of such a nature that it requires treatment before it is satisfactory for use. By carbonizing the coal it has been found possible to compress the product into briquettes which are satisfactory in every way. In addition the by-products of this operation are valuable. After thorough investigation it is proposed to construct a plant to make the briquettes commercially available. This will serve to decrease the importations of anthracite coal from the United States.



Foreigners continue to return to their home-lands in ever-increasing numbers. During June the total was 30,000 and one estimate is that about 5,000,000 more wish to return as soon as passage can be obtained. Each individual is said to be taking back about \$2,000 on an average. The loss to the country in available labor supply is serious because shortages of labor are in evidence in many sections of the country and we can ill afford further losses through emigration.



The prospectus of the British Overseas Bank, which has just been issued, states that the capital of the new bank will be £2,000,000, £1,000,000 of which will be known as ordinary shares with a par value of £5, which will be offered to the public, and £1,000,000 in B shares, which will be held by the stockholding banks.

The new bank is the latest English bank to be organized for foreign business, and forms a combination of interests of seven of England's largest banking institutions.



A committee of Government experts, which has investigated the desirability of establishment of branches abroad by American

banks and business interests, has submitted a report summarized as follows:

If all the results, indirect as well as direct, are taken into consideration, the American Government should look with favor upon the establishment of branches of all sorts of American enterprises in foreign countries. The extent to which it should actively exert itself in behalf of such concerns is, however, a matter which should depend upon the circumstances of each case.



Judge Gary, when asked to express opinion about the effect of the weakness in foreign exchange on our foreign trade, stated: "A large foreign business is being offered and will be offered in increasing amounts. I do not see anything in the way of a satisfactory export business during the remainder of this year and longer unless it is a question of exchange, and, while not competent to speak as a banker, I think that the natural and necessary way of taking care of that question is by purchase of more foreign commodities. We can do it. We have the necessary money, with the masses well supplied. * * * This country never had as good a chance to prosper as at present, if we are sufficiently skillful to seize upon and utilize the opportunities offered us."



The American Exchange National Bank of New York feels that there is a "growing appreciation of the place the acceptance has taken in the credit system of the country, and the movement in the interest of the development of a wider discount market is meeting with deserved success. Primarily, the success of the acceptance is based on the appreciation found among forward-looking bankers of its potentialities in the development of trade. Banking, like every other interest not directly engaged in production, profits only as general business profits, and when it neglects the demands made upon it on behalf of trade it neglects the very thing from which it draws sustenance. That is the explanation of the willingness of bankers who look ahead to forego the momentary large profits in the interest of the development of a larger volume of business from which they will draw steady benefits."



Since the gold embargo was lifted on June 9 a total of \$93,000,-000 in gold has been exported. South America took the largest amount, but demand from that source shows signs of a decrease.

Total engagements of gold for various destinations since that time follow:

South and Central America.....	\$53,251,500
Spain	24,099,000
Japan	13,494,000
China	1,200,000
India	500,000
England	280,000
Mexico	167,500
France	100,000
Canada	25,000
Total	<hr/> \$93,117,000



Commenting on the economic situation in Europe, Frank A. Vanderlip says, in his book "What Happened to Europe," that, if he reads "the situation aright, there is to be a new type of financial relationship. Europe lacks credit, but it has something that America lacks. It has experience and an understanding of international industrial business which goes, in many instances, far beyond our own experience. It seems to me that this should be the best of grounds for a partnership in commercial and industrial affairs. We would bring to the partnership capital and a certain amount of imagination and vigor, while the Europeans would bring an industrial plant and a commercial organization thoroughly experienced in fields where we have not adventured.

* * * * *

"There is no more dreadful error to be made by America than narrowly to conclude that foreign trade means merely selling our products, and to close our minds to the idea of helping rehabilitate and making future markets for the products of European industry. Some may hold the opinion that a loan of credit to rehabilitate industry in Europe would be merely a loan to help our industrial competitors more quickly to get back to a position where they can outstrip us in competitive markets, and therefore we had best keep our credits at home and push our present commercial advantage. It seems to me that this conception is as seriously wrong as possible. Foreign trade is interchange, and distinctly not to be conceived of as merely selling by one country to other countries. As European industry is rehabilitated, and as surplus prod-

ucts are made that can be exchanged for the surplus products of other countries, the world will get back to something like a normal life.

* * * * *

“Of course, banking credits will ultimately come into the picture, but there are great misconceptions in the minds of government officials, of business men, and I would even venture to say in the minds of some bankers as to the proper function of bank credit in such a situation as the present one. I have always felt that it was salutary to look at a bank, not as an inexhaustible fountain of credit, but rather as the greatest debtor in the commercial world. We are apt to speak of the resources of a bank instead of that exactly counter-balancing figure, its liabilities; and borrowers at least do not keep clearly in mind that the banks are the greatest borrowers of all, and that they owe all of their resources, except the modest percentage that represents their capital; and, more than that, stand committed to the repayment of their debt on demand. All this means that wise bankers will not tie up in long-term credits the funds that they owe to depositors on demand. The credit that represents goods in transit, raw material in process of manufacture, products moving directly into consumption, is the ideal form of credit for bank loans. All credits that inherently have in them the power of self-liquidation is the proper use for bank resources.

“When a bank begins to loan against a commodity in transit, and further agrees to renew those loans for a period of a year or two after the commodity that formed the original basis of the loan has passed into consumption, the bank has engaged in financing rather than banking. If it takes on much of this character of business it is on dangerous ground. Personally, I believe one of the few serious errors in disregard of the sound principles of banking which the Federal Reserve Board has made, has been to permit the rediscounting of bills that have been drawn under agreements to renew. Such bills cease to have any self-liquidating character after the goods against which they were drawn passed into consumption while the payment of the original bill is extended.

“The role that American banks can play in the credit situation in Europe is of vast importance, and if they will hold firmly to the lines of sound commercial banking it is a role which they can play with security and profit. Never was there greater need, however, for a firm grip by bankers on the fundamental principles of sound banking. There will be presented most attractive opportunities to

make bank loans under conditions and for terms that will take the loan out of the category of proper banking and put it into the form of financing. If bankers are firm in adhering to principles they will leave such loans to be worked out in other ways and will perform their true function by making loans that have within themselves the inherent power of self-liquidation.

* * * * *

“American bankers have an opportunity in the field of world-banking brilliant beyond any conception which they have heretofore had. If they will rise above the provincialism in which they have been trained and still hold firmly to the principles of sound commercial banking, the role which they will play in the future world of finance has no limit that I can see.”

