

Business Conditions

Report of the Federal Reserve Bank
of Philadelphia



November 1, 1919

THE demand for commodities of all kinds continues unabated. Prices display great firmness and there appears to be no immediate expectation of any large decreases in the near future. Increased production and economy in retail purchasing are now recognized as the only means by which prices may be lowered, and business men everywhere are stressing these points.

Labor troubles have not proved very disturbing in this district during the past month, though some isolated instances of strikes have been reported. There has been a very natural interest in the labor situation and it is felt that some solution must be attained without further delay. The conference at Washington between the representatives of capital and labor commanded the attention of many of our manufacturers, and they feel that a continuation of its sessions would be distinctly helpful in securing a degree of harmony. They appear willing to make reasonable concessions in order that the spirit of unrest may be eradicated as soon as possible, but resent the intrusion of agitators who cloud the issues with radical preachings and attempt to bring into this country the doctrines of less advanced nations.

Retail trade has continued to show great activity in quantity of goods sold and in sales returns. There has been an increase in the quantity of goods as compared to the previous month and last year, but one large department store reports that this is not the case as compared to 1914. House-furnishings and clothing

of the higher qualities are in heavy demand. The people are not yet manifesting a tendency to buy goods of medium qualities but want only the best, even though the prices for such materials may be far beyond that which they can reasonably afford to pay. The outlook for the coming spring is regarded as uncertain, as merchandise is scarce and the mounting of prices might be followed by economy on the part of the buying public. Collections are normal and satisfactory in every way.

Coal

The present condition of the anthracite market is very active in so far as the family or domestic sizes—egg, stove, chestnut and pea—are concerned, though some scarcity of stove and chestnut sizes is noted. The market in steam sizes, however, is very weak, which indicates that consumers are fairly well supplied. The arrival of cold weather is expected to enlarge the demand for this size. The renewal of the wage agreement with the anthracite workers which is to continue until April 1, 1920, has stabilized conditions in this branch of the coal industry and no trouble is expected for some time to come, at least until the end of the present coal year, March 31 next.

Retail dealers, to a large extent, have educated consumers to prompt payment of coal bills by judicious cash discounts, and the wholesalers in turn have reaped the benefit by the prompt payment of their bills.

Collections are uniformly reported to be good, and it is stated that a large number of buyers are anxious to pay in advance in order to insure their supplies of goods.

The demand for bituminous coal has not been urgent, as large consumers have been forehanded in accumulating considerable supplies during the summer season. The average supply of coal in the hands of the largest consumers is expected to last about sixty to ninety days. Prices have sagged somewhat due to the large tonnage thrown on the market as a result of the steel strike. Many countries are seriously short of bituminous coal, but the limited shipping facilities and irregular movement of vessels have largely curtailed shipments to this trade.

The production of bituminous coal has been showing a very steady increase since the early part of last May, when the output was at a very low ebb. While the tonnage has shown remarkable gains, it has not been up to the 1918 figures. Car shortages have been the most active factor in cutting down production

lately, but the latest figures show some improvement, especially in the northern and central Pennsylvania fields.

The bituminous miners are making demands which are absolutely unreasonable, in the view of the coal trade. Pennsylvania is the principal coal-consuming state of the country. A competent authority places its annual consumption of bituminous coal, apart from that used by the railroads, at approximately 80,000,000 tons, and estimates that demands of the strikers would, if granted, cause an increase in the bituminous coal bill of about \$161,000,000 annually.

Cotton

Owing to the poor prospects for the new crop of cotton, prices have advanced materially of late, and the Southern factors and growers are not eager sellers. Business is active and profitable in so far as domestic selling goes, and the improvement in the European situation is expected to create a large export demand, which will serve to further sustain the cotton market.

Business in cotton is very brisk indeed, and this seems to be equally true of all those connected with the manufacture of this commodity, whether into yarns or the finished goods. They are unable to cope with the demand. No particular labor trouble is at present disturbing them, but it is recognized that a greater degree of harmony between employers and employees will have to be established before continued production can become a certainty.

Little or no difficulty is had in making collections, as accounts are, in most cases, paid promptly on discount dates, and it sometimes happens that payments are made even before this date.

Crops

The Department of Agriculture estimates of the production of corn and oats based on conditions on October 1 show considerable improvement as compared to their estimate on August 1. In comparison with last year's crops, corn shows an increase but oats have decreased. The figures given below show the acreage and estimated production in Delaware and such parts of Pennsylvania and New Jersey as are located in this district.

	Acreage 1919	Forecast of production based on condition September 1, 1919 (Bushels)	Acreage 1918	Production 1918 (Bushels)
Corn.....	1,533,000	67,748,000	1,544,500	59,804,500
Oats.....	748,000	23,165,000	763,700	29,772,800

Hardware

There is a general demand for hardware of all kinds and the only drawback is the difficulty in securing enough goods from the different factories to fill orders. Sales have increased materially during the last few months. Barring some unforeseen happening, jobbers declare that present conditions forecast prosperous business for some time to come.

Collections are normal in every way and outstanding accounts bear a smaller ratio to sales. One large jobber states that this change has been quite marked as compared to conditions a year ago.

Hosiery

Hosiery for immediate delivery and also for delivery up to next spring is in great request. It is reported that almost any price can be asked for merchandise that can be delivered promptly.

The output of the mills is quite markedly below the demand for goods. This would very probably be the case at this time even if the mills were operating under normal conditions, but they are retarded by decreased hours of labor and the lower individual efficiency of their forces. Production in one large establishment is at only 60 per cent of normal and they can see no price change in the immediate future except toward higher ones. Hosiery manufacturers are practically unanimous in taking the stand that only through steady and consistent working, with a resultant increase in production, can any decrease in prices be expected. Collections are satisfactory.

Iron and steel

There is a heavy demand for iron and steel products of every kind and orders now on the books of most of the concerns in this district are expected to carry production well into next year. Rails and railroad supplies are not called for in large quantities, but the reversion to private ownership is expected to be followed by large orders from the railroads, which are unwilling at present, due to the uncertainty of their present status, to contract for more than absolute necessities.

The volume of business in wire and allied lines is normal and shows no tendency to fall off. Collections hold up very well.

The pig iron trade is somewhat depressed by the prospect of a strike of bituminous coal miners, which would seriously interfere with the supply of coke. The production of pig iron throughout the country reflects this lessening in demand and the decrease in output due to strikes. The average daily production in September was 78,340 tons, as compared to 88,396 tons in August, and 113,942 tons in September, 1918.

The steel strike has not been very widely felt in this district and, with the exception of a few isolated places, producers of iron and steel products have been operating their plants steadily. Manufacturers recognize the restraining effect on operations which an uncertain labor situation exerts, and are desirous of making a basis for an amicable settlement, either through the medium of the conference held at Washington or through other means. They feel that wages have gone as high as they may without doing serious harm and state that an increase in efficiency has not accompanied the increases in wages that have been made thus far.

Jewelry

Jewelry has been in steady demand and the volume of business has shown substantial growth commencing early in the year. As compared to like months a year ago, the increases have been as high as 15 to 20 per cent. Collections in this line are said to be a bit slow.

Paints

The neglected condition of buildings throughout the country, coupled with new construction and strong export demand, has caused a very considerable call for white lead and paints of all kinds. The majority of manufacturers are somewhat behind on the delivery of orders and expect continued activity for a long time to come. Shortage of efficient labor is very embarrassing in many cases and such labor as can be procured is said to be inefficient, causing delays in output and increasing costs. Customers are mainly discounting their bills.

Paper

The demand for paper is exceedingly active, both for domestic consumption and for export. This encouraging condition is expected to continue at least over the year 1920, unless some

unforeseen calamity should occur. There is a scarcity of paper all over the world and our foreign competitors thus far have had great difficulty in making prices which could compete with our own. Collections continue to be good.

Shoes

Business has been very active, the demand being greater than the ability of the manufacturers to supply. Prices rule high, but the big retail dealers have not been restrained by this factor and show a general tendency to purchase heavily. This state of activity is expected to last at least until the spring buying is completed. The thought is expressed that there may be some cessation thereafter, due to increased economy on the part of consumers, but the supply is so far behind the demand that even such a condition will probably exert but little effect on this line.

The general feeling prevails that the labor problem must be solved. Actual strikes have not been numerous but there are incessant calls for higher wages. Manufacturers state that they wish to work in harmony with their organizations, but that they cannot continually raise wages and receive no return in the shape of more efficient services which would bring production back to what might be termed a normal output.

Wool

The wool market has ruled quiet for a long time past. Prices of merinos and fine cross breds have held steady at high prices, and there seems to be no probability that they will become lower in view of the record prices that are prevailing in the London market. Medium grade wools have shown a shade more activity, but this is not general, and the opinion is presented that there cannot be any general demand for these qualities until the public expresses a definite desire to buy fabrics at a less cost or some standard, lower-priced material is evolved which will attract popular favor.

The mills have been doing a wonderful business and are somewhat behind on their orders. They could very easily book new business far into 1920, but some manufacturers have been paying heed to the demands for lower prices and are trying to avoid the acceptance of too many orders at the high prices now current. They are hoping that the situation at a later date will

be more clear and enable them to quote goods and yarns at a lower level; it is stated that some of them are using the unusually high prices now prevailing as a means of forcing buyers to hold off. Collections have been prompt.

Financial

The financial situation continues undisturbed and the offerings of certificates of indebtedness have met with a liberal response by the banks of the district.

The average rate for commercial paper shows no change, holding firm at $5\frac{1}{2}$ to $5\frac{3}{4}$ per cent.

The operations of this Bank during September have increased, discounts amounting to \$1,003,715,000, compared with \$922,775,000 in August. The transit department handled an increased number and amount of checks during the month.

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

	High	Low	Average
Customers' prime commercial paper:			
30 to 90 days.....	6	5	$5\frac{1}{2}$
4 to 6 months.....	6	5	$5\frac{1}{2}$
Prime commercial paper purchased in open market:			
30 to 90 days.....	$5\frac{3}{4}$	5	$5\frac{1}{4}$
4 to 6 months.....	6	$5\frac{1}{4}$	$5\frac{1}{4}$
Loans to other banks—secured by bills payable.....	6	$4\frac{1}{2}$	5
Bankers' acceptances of 60 to 90 days:			
Endorsed.....	$4\frac{11}{8}$	$4\frac{1}{4}$	$4\frac{1}{4}$
Unendorsed.....	$4\frac{3}{4}$	$4\frac{1}{4}$	$4\frac{5}{8}$
Loans secured by prime stock exchange collateral or other current collateral:			
Demand.....	9	$4\frac{1}{2}$	6
3 months.....	6	5	6
3 to 6 months.....	6	5	6
Cattle loans.....	5
Commodity paper secured by warehouse receipts, etc.	6	5	6
Loans secured by Liberty bonds, Victory notes and certificates of indebtedness.....	6	5	5

STATEMENT
Federal Reserve Bank of Philadelphia

RESOURCES	Oct. 18, 1919	Month ago	Year ago
Gold reserve.	\$130,824,692	\$126,278,575	\$186,435,321
Legal tender, silver, etc..	190,488	253,767	771,081
Total reserve.	\$131,015,180	\$126,532,342	\$187,206,402
Bills discounted, members:			
Secured by Government war obligations.	183,884,304	170,482,556	
All other.	23,477,992	22,754,057	106,387,503*
Bills bought in open market	618,291	826,786	26,081,678
United States securities..	30,567,400	28,636,000	5,599,550
Total earning assets	\$238,547,987	\$222,699,399	\$138,068,731
Mutilated and fit notes on hand:			
Federal reserve notes.	12,550,405	12,089,853	15,740,502
Federal reserve bank notes.	1,137,091	107,880	251,296
Due from depository banks—war loan deposit account.	45,968,478	74,878,440	
Uncollected items	95,013,578	102,297,902	47,218,480
All other resources	2,971,052	3,036,535	2,238,929
Total resources.	\$527,203,771	\$541,642,351	\$390,724,340

LIABILITIES	Oct. 18, 1919	Month ago	Year ago
Capital paid in	\$7,773,850	\$7,757,250	\$7,362,300
Surplus.	5,311,336	5,311,336	
Profit and loss	271,415	274,183	643,279
Government deposits	6,964,013	10,886,505	19,532,648
Due to members—reserve account.	105,244,455	83,548,027	81,583,157
Collection items	90,773,665	100,593,298	44,881,996
Total gross deposits	\$202,982,133	\$195,027,830	\$145,997,801
Government deposits—special account	47,747,411	80,984,030	
Federal reserve notes outstanding.	231,771,280	223,921,145	231,815,200
Federal reserve bank notes outstanding.	28,420,000	26,200,000	3,204,000
All other liabilities.	2,926,346	2,166,577	1,701,760
Total liabilities.	\$527,203,771	\$541,642,351	\$390,724,340

*Total of bills discounted—items not segregated.

RESOURCE & LIABILITY ITEMS
of member banks
in Philadelphia, Scranton, Camden and Wilmington

At the close of business

	Oct. 10, 1919	Sept. 12, 1919	Oct. 11, 1918
	[In thousands of dollars— i.e., 000's omitted.]		
United States bonds to secure circulation	\$11,262	\$11,597	\$11,492
Other United States bonds and notes	48,268	49,188	29,363
Certificates of indebtedness	54,176	43,895	94,052
Total United States securities owned	\$113,706	\$104,680	\$134,907
Loans secured by United States securities	159,950	171,600	50,360
All other loans and investments	684,160	667,858	615,665
Total loans and investments	\$957,816	\$944,138	\$800,932
Reserve with Federal Reserve Bank	67,764	69,716	65,034
Cash in vault	16,984	22,362	19,590
Net demand deposits on which reserve is computed	677,051	681,626	626,508
Time deposits	22,221	21,949	14,440
Government deposits	49,121	30,587	25,742
Number of banks reporting	56	56	51

CHARGES TO DEPOSITORS' ACCOUNTS
other than banks' and bankers', as reported by Clearing Houses

	<i>Weeks ending</i>		
	Oct. 15, 1919	Sept. 17, 1919	Oct. 16, 1918
Altoona	\$2,922,000	\$3,322,000	\$3,102,000
Chester	2,431,000	4,782,000	4,909,000
Harrisburg	4,226,000	4,600,000	5,292,000
Johnstown	3,142,000	3,522,000	3,119,000
Lancaster	5,347,000	5,181,000	4,656,000
Philadelphia	283,458,000	376,013,000	275,702,000
Reading	3,841,000	3,819,000	5,749,000
Scranton	13,192,000	12,112,000	11,621,000
Trenton	10,634,000	13,704,000	8,447,000
Wilkes-Barre	9,394,000	8,634,000	6,722,000
Williamsport	3,190,000	3,643,000	3,612,000
Wilmington	11,086,000	21,931,000	7,012,000
York	3,615,000	3,684,000	3,195,000
Total of clearing houses	\$356,478,000	\$464,947,000	\$343,138,000

BUSINESS INDICATORS

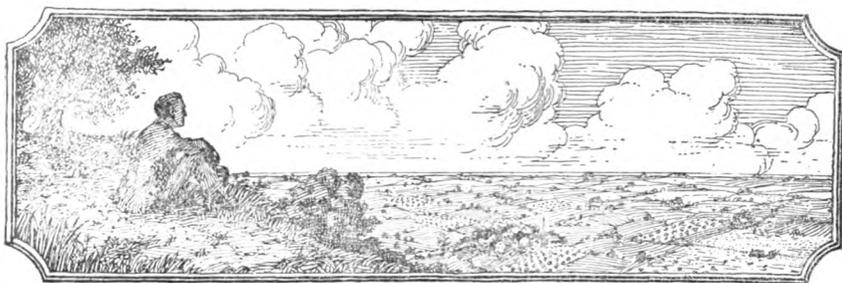
	Oct. 18, 1919	Percentage increase or decrease compared with	
		Previous month	Year ago
Philadelphia banks:			
Loans	\$809,223,000	— 2 %	— 26 %
Deposits	\$712,233,000	+ 3 %	+ 9 %
Ratio of loans to deposits	114 %	119 %*	99 %*
Federal Reserve Bank:			
Discounts and collateral loans	\$207,362,296	+ 7 %	+ 103 %
Cash reserve	40 %	40 %*	57 %*
90-day discount rate	4¾ %	4¾ %*	4¾ %*
Commercial paper	5½ %	5½ %*	6 %*

	Sept. 1919	Percentage increase or decrease compared with	
		Previous month	Year ago
Bank clearings:			
In Philadelphia	\$1,911,994,474	+ 6 %	+ 19 %
Elsewhere in district	119,037,490	+ 5 %	+ 14 %
Total clearings	\$2,031,031,964	+ 6 %	+ 18 %
Building permits, Philadelphia	\$5,234,425	— 13 %	+ 392 %
Post office receipts, Philadelphia	\$1,096,888	+ 12 %	+ 13 %
Commercial failures in district (per Bradstreet's)	28	30 *	32 *
Latest commodity index figures:			
Annalist (food prices only)	277.028	— 1 %	— 2 %
Dun's	\$235.867	— 1 %	+ 1 %
Bradstreet's	\$19.5215	0 %	— 3 %

*Actual figures.



This business report will be sent regularly to any address on request.



ON THE HORIZON

In the thirty months ending with September of this year, Treasury disbursements, with the exception of certain items such as the paying off of matured certificates of indebtedness refunded by bonds, totalled \$34,850,000,000. This includes the \$9,356,312,959 loaned to the Allies. Treasury expenditures are gradually decreasing, the total for September being \$667,221,630, which is the lowest since July, 1917.



An association which is termed the "Army Ordnance Association" is being formed, the membership consisting of technical experts, reserve officers and prominent American manufacturers. This organization has not been formed for the purpose of manufacturing large supplies of ammunition and guns, but is being formed for the purpose of organizing into a permanent association the ten thousand or more men in the country having expert knowledge of all those things which are essential in time of war, so that preparedness upon a moment's call will be possible in case of any future emergency.



One of our nationally-known economists reaches the root of the present labor situation when he says: "When we talk about the need of increased production we do not mean merely a gross increase. That would help. What we need most is an increase of production per man. The longshoremen in New York harbor take practically twice as long to coal a vessel as they took in 1915. When you ask them if this falling off is because they were

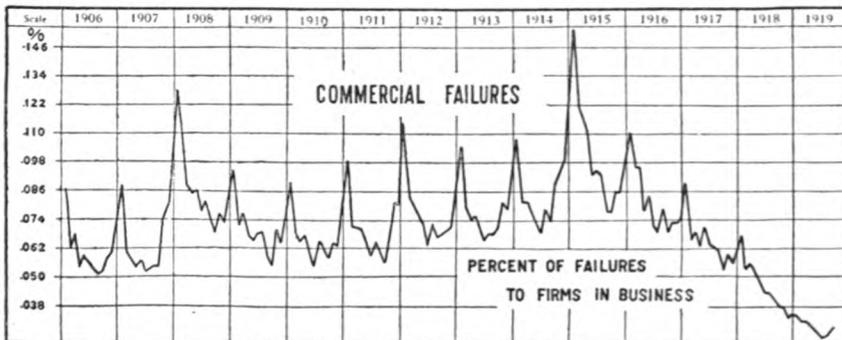
crowded in 1915, they merely say that they are wiser now than they were then. This is typical. Till this spirit gives way to an individual zeal for doing a day's work there is little hope of a genuine business boom or of a lower cost of living."



In discussing the subject of foreign credits in a recent letter, Secretary Redfield of the Department of Commerce states that "there are but three ways that debts can be paid, namely: by cash, by goods, or by services. Credits are a deferred form of cash, but no European country is in a position to either ship gold or to give us credits. They certainly are not in a position at present to ship goods on any large scale, nor are we in a position where they can render us adequate service. We must help those other nations who are our debtors by aiding them to help themselves. This means we must extend them the credits to get on their feet."



The chart given below shows the percentage of firms failing to the total number of firms in business from 1906 to date. The falling off in failures does not indicate a favorable condition as some might expect, but is really a sign for caution. Failures have reached a minimum, and it would appear that high standards are not now so necessary in order that a business may keep its head above water. Normal business conditions are usually marked by a greater percentage of failures than the United States has been having for some time past.



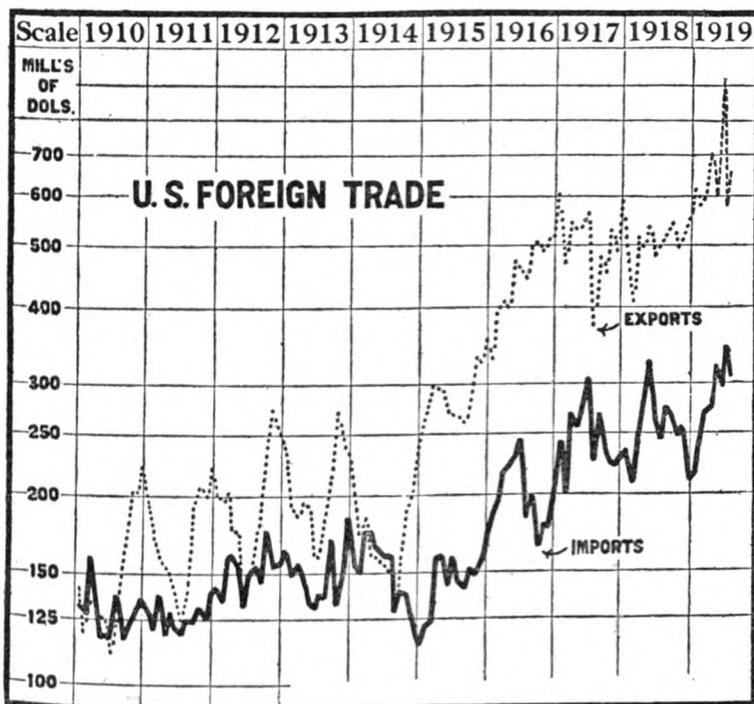
A prominent merchant of Philadelphia thinks that "much of the present labor agitation is caused by the cunning altruistic propaganda that is going on, originating largely with the foreign element, naturalized and unnaturalized, who are jealous of America's great prosperity."



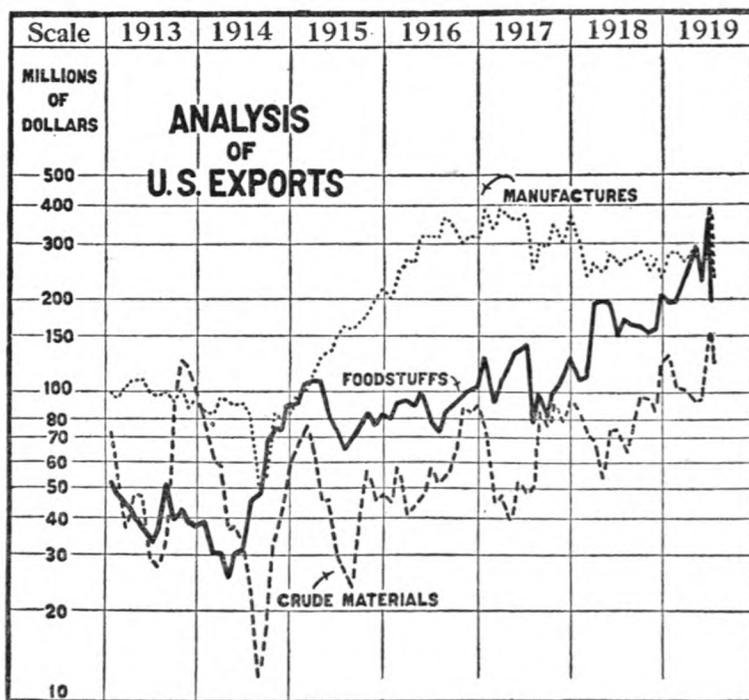
Dow, Jones & Co.'s combined index prices of 40 bonds for September was 67.40, compared to 68.18 in August, and 67.79 in September, 1918. This is the lowest average on record. Stock prices during the first part of October reached the highest levels attained so far this year.



The chart on the foreign trade of the United States shows the tremendous increase of exports during the period of the war. Imports are gaining and the time may come when it will be necessary to reverse our foreign trade figures from an excess of exports to an excess of imports in order to permit European nations to pay in goods for their past purchases.



The second chart analyzes our export trade. Manufactured articles are gradually losing their pre-eminence and foodstuffs are coming to the fore. This is in line with the primary needs of the former belligerent powers.



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The attitude of America toward foreign trade has been very widely changed during the period of the war. Through necessity she has been forced to take a place which formerly was held by European competitors in supplying commodities to all sections of the earth. Congress has not been slow to respond to the changing times and the Webb law was passed permitting combinations in export trade, thus giving the exporters of this country the opportunity which was formerly held only by the countries of Europe and Japan. The value of this legislation will be more clearly apparent when the warring nations have regained their old-time strength in commerce and finance.

Meanwhile we have been facing the problem of exporting necessities to countries which have suffered through the fearful ravages of war. They cannot pay us in goods or in money and we must extend credit. It would not seem expedient to continue

to do so further through the United States Government, but a very legitimate field is opened for the investing public. The McLean bill, which amends section 25 of the Federal Reserve Act, has just become a law. This bill permits national banks to invest 5 per cent of their capital and surplus in corporations engaged in foreign financial operations. The Edge bill, which has passed the Senate and is now pending in the House, provides for the federal incorporation of concerns with a minimum capitalization of \$2,000,000 to handle the financing of foreign business.

When the Edge bill or another bill with similar provisions becomes law we will be armed with some of the best facilities that could be desired for maintaining and extending our foreign trade. Legislation which will have as its object the perpetuating of our merchant marine is all that is needed to intrench this country in its position as a great trading nation.



Since 1914 there have been many changes in the rank of nations as shipbuilders. The following table reprinted from the Journal of Commerce shows the gross tonnage under construction:

	June 30 1914	June 30 1919	Gain or loss
United States	148,515	3,874,143	+ 3,725,628
United Kingdom	1,722,124	2,524,050	+ 801,926
Canada	14,184	261,643	+ 247,459
Other Dom.	22,390	84,810	+ 62,420
Austria	92,767	0	- 117,164
Belgium	5,792	7,063	+ 1,271
China	0	33,300	+ 33,300
Denmark	25,671	57,771	+ 32,100
France	226,779	109,615	- 92,767
Germany	547,050	?	?
Greece	0	1,500	+ 1,500
Holland	116,137	219,332	+ 103,195
Italy	69,098	271,620	+ 202,522
Japan	91,510	282,060	+ 190,550
Norway	38,776	62,441	+ 23,665
Portugal	0	12,320	+ 12,320
Russia	20,667	?	?
Spain	4,429	118,854	+ 114,425
Sweden	17,001	97,245	+ 80,244
World	<u>3,162,800</u>	<u>8,017,767</u>	<u>+ 4,854,877</u>



A. C. Bedford, in welcoming the delegates to the International Trade Conference at Atlantic City, assured the delegates that "American business men had a full consciousness of the new solidity and interdependence of the world, that they realized the peril of Bolshevism and that its remedy was the restoration of the world to business and labor."

He furthermore stated that we cannot have real and lasting prosperity unless we have co-operation between our business men and by a return "by our people to a realization of the dignity of labor. No nation that puts a minimum of its strength into labor can hope to compete with another that works at full blast; to live the world must produce more and talk less."



Dr. Nicholas Murray Butler, president of Columbia University, analyzed the labor situation very clearly in a recent address before the Institute of Arts and Sciences. Reprints of the complete text may be obtained on request to Box 213, Post Office Sub-Station 84, New York City.

Dr. Butler reached the following conclusion: "To solve the real labor problem, then, we must think straight and clear regarding facts of industry, and think straight and clear regarding principles of political organization. Continued industrial reforms are easily possible, and in my view are only possible, if the principles and ideals on which and for which the American people have been building for a century and a half are maintained and strengthened. Moreover, we must shun and take active steps to limit the influence of those who foment unrest and organize industrial war and who thrive upon this process. These are public enemies and the handworkers' meanest friends.

"From the very active company of those who would not hesitate to tear down or to overthrow the Government of the United States in order to attain their immediate personal or group ends there has not come a single suggestion which does not spell destruction. Not one of those who claim to represent these movements and tendencies has proposed to build up anything. They are all bent upon destruction, in the wild hope that after their joy in tearing down has had full satisfaction somewhere and somehow personal advantage may accrue. In the process they would not hesitate to destroy America."