MINUTES OF MEETING
OF
FEDERAL ADVISORY COUNCIL.

November 15,1920.

A statutory meeting of the Federal Advisory Council convened in the Federal Reserve Board room, Metropolitan Bank building, Washington, D. C. on Monday, November 15, 1920 at 10:30 A M.

Present: Messrs. James B. Forgan, President, L L Rue, Vice-President, Philip Stockton, W S Rowe, J G Brown, Oscar Wells, F O Watts, C T Jaffray, and Merritt H. Grim, Secretary.

Absent: Messrs. A B Hepburn, E F Swinney, R L Ball and A L Mills.

The President called the meeting to order and the minutes of meetings of the Federal Advisory Council held September 20 and 21, and of the Executive Committee held September 21, 1920, copies of which had been sent to members, were on motion of Mr Rue approved.

The President stated that in accordance with Governor Harding's letter dated, October 23, 1920, (copy of which is hereto attached and made a part of these minutes) he had asked each member of the Council to bring with him or send a carefully prepared report on conditions in his district; that he had received such reports from Messrs. A B Hepburn, E F Swinney, and A L Mills, who were unable to attend the meeting, and that having received a telegram from Mr Ball stating that he could not attend the meeting he had wired him to send his report, which would undoubtedly be received later.

Mr Forgan also stated that he had seen Governor Harding and had arranged for the Federal Reserve Board to meet with the Council in joint session at eleven o'clock to receive the reports of the members; also that Governor Harding had asked him to bring to the attention of the Council the matter of the growing unrest among member banks because they are not getting a larger share of the profits of the Federal Reserve banks. Governor Harding said Congress would undoubtedly be strongly urged to provide by amendment to the Federal Reserve Act for a greater distribution of the profits of Federal Reserve banks to the member banks and to meet this situation he personally suggested the following plan for the consideration of the Council:

"1. That the present regular dividend of 6% to the stockholders of the Federal Reserve banks should continue to be a first charge against the earnings.

2. To pay a similar dividend of 6% on the capital stock to the Government as a franchise tax.

3. That the present provision of the law for the building up of the surplus funds until they are 100% of the subscribed capitals and thereafter to add to them 10% of the net earnings should be continued.

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MINUTES OF MEETING
OF
FEDERAL ADVISORY COUNCIL, CONT.

Nov. 15, 1920.

4. After these three provisions have been effected, to divide, whatever balance of earnings there may be left, after a reasonable deduction for depreciation on real estate, between the government and member banks, with the understanding that out of the member banks' share provision will be made for all losses and whatever is left of their share shall be pro rated among them on the basis of the average reserve balances they have carried with the Federal Reserve banks for the year".

The members of the Federal Reserve Board having arrived the Council went into joint session.

S E C R E T A R Y.

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FEDERAL RESERVE BOARD

WASHINGTON

OFFICE OF THE GOVERNOR

October 23, 1920.

MY DEAR MR. FORGAN:

I have your letter of the 21st instant, advising that the next meeting of the Federal Advisory Council will be held here on Monday, November 15th.

The Board feels that it is important at this meeting that there should be a discussion of pratical banking and business matters and a free interchange of views upon the financial and commercial situation in all of the Federal Reserve districts. In order that there may be a full and free expression of opinion and that there may be an opportunity of considering the general situation in view of the latest developments, the Board will not submit a list of topics for discussion at the approaching meeting.

The Board feels that it is important that there be a more continuous contact between the Council and itself and therefore requests that you advise the members of the Federal Advisory Council that the Board would appreciate a confidential letter at regular intervals — say, once a month — from each member, touching upon the situation in each Federal Reverve district as viewed from a banker's standpoint.

Very truly yours,

W. P. G. HARDING, Governor.

MR. JAMES B. FORGAN, PRESIDENT,
FEDERAL ADVISORY COUNCIL
CHICAGO, ILLINOIS

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MINUTES OF JOINT MEETING
FEDERAL RESERVE BOARD
AND THE
FEDERAL ADVISORY COUNCIL.

November 15,1920.

Present: Messrs. W. P. G. Harding, Governor, Edmund Platt, Vice-Governor, A C Miller, J S Williams, D C Wills, members of the Federal Reserve Board, and W W Hoxton, Secretary.

Messrs. James B. Forgan, President, L L Rue, Vice-President, Philip Stockton, W S Rowe, J G Brown, Oscar Wells, F O Watts, C T Jaffray, members of the Federal Advisory Council, and Merritt H. Grim, Secretary.

Mr. James B. Forgan, President of the Council, called the meeting to order and asked the members of the Council to read their reports on conditions in the various Federal Reserve districts. The reports sent in by absent members were also read.

After the reading of the reports there was a general discussion. It was decided that copies of the reports as read should be given to the Federal Reserve Board and to all Council members.

At one o'clock the meeting adjourned for lunch.

At 2:30 the members of the Federal Reserve Board and the Federal Advisory Council resumed its conference at the Metropolitan Club.

The Federal Reserve Board's policy in regard to discount rates was informally considered, after which on motion of Mr Rue, seconded by Mr Watts the Council voted unanimously that it was in favor of a continuance of the present policy of the Board and that rates current at Federal Reserve banks should not be reduced at the present time.

The question of the continuance of the differential rate in favor of bond secured paper at Federal Reserve banks was informally discussed and it was the consensus of opinion that ultimately such a rate should be discontinued.

At 4 o'clock the joint conference adjourned.

SECRETARY.

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REPORTS OF MEMBERS

of

FEDERAL ADVISORY COUNCIL

to the

JOINT CONFERENCE

of

FEDERAL RESERVE BANKS AND FEDERAL ADVISORY COUNCIL

held at

Washington, D.C.

November 15, 1920.

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District No. 1 (Boston)

Wholesale closing down of industry and general cessation of orders for goods, accompanied by continued cancellations of goods already ordered, are the almost universal reports received from merchants and manufacturers in this District. Reductions in prices have so far done nothing to improve demand and have indeed resulted in rendering buyers still more timid.

The retailer seems to be the most hopeful element in the situation. There appears to be a fair demand from the individual consumer, and while it is probable that in number of sales the retailer is not having his normal business; nevertheless in dollars the liquidation of retailers' stocks is progressing satisfactorily without as yet severe price reduction.

Unfortunately the retailers generally are carrying abnormally large stocks which they hope to reduce to normal proportions in the next six weeks and about January 1st it is expected that sweeping price reductions will result in generally increased sales and the resumption of normal buying. Some retailers have expressed the fear that the demand for goods from the manufacturer will become so general that a scramble may ensue, possibly encouraging the manufacturer to raise prices. Whether the public will continue to buy enough to accomplish the fulfillment of these predictions will be proved in the next month.

Meanwhile the situation is most depressing. Raw material prices continue to weaken, wool, cotton, hides, leather, ground wood pulp, sugar and lumber continue to pile up in storage and cuts in prices do not stimulate sales.

There are, however, some encouraging features - Savings deposits have not decreased in spite of unemployment. There is undoubtedly plenty of buying power and when it is reasonably sure that lowest prices have been

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reached a revival in industry is confidently expected. Meanwhile labor has improved in efficiency from 25 to 50% and is generally ready to accept lower wages if industries can be reopened.

Railroad transportation is improving and there is a slow liquidation, which has encouraged the belief that in this district the money strain is nearing its end. It is generally believed that easier money conditions will revive confidence and help to restore normal trade conditions on a much safer base than has been possible in the last two years.

While not strictly within the scope of a district report, there is one matter affecting all districts that I should like to have discussed at this meeting. While the Federal Banks have in most ways cooperated so as to obtain the advantages of a great central bank with branches, in one way there has not been cooperation or any agreement as to policy. That is in the discrimination by the Federal Reserve Banks of some districts against the rediscount of good commercial paper that is eligible in other districts. In our district the bankers believe it is very bad policy not to have a more general understanding and agreement between the officers and directors of Federal Reserve Banks in the different districts as to eligibility of paper for rediscount.

PHILIP STOCKTON.

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District No. 2 (New York)

The outstanding fact is, of course, the tremendous slump in commodity prices still under way. Bradstreet's index number shows a decline of 25% from February 1st to November 1st in commodities at wholesale. The index number of the New York Federal Reserve Bank shows a decline of over 27% from last April to November 6th, and their statistician states that there have been important breaks in a number of commodities since that date. This index number is based on the twelve most important basic commodities. Other index numbers have not fallen so fast, but it is probable that they contain many quotations which do not represent the actual market facts: there is a great difference between quoted prices and the actual prices which a large buyer can obtain if he is willing to pay actual cash. It is easy for such a buyer to get marked concessions from quoted prices.

The general credit fabric has met this almost unprecedented shock in a gratifying way. Federal Reserve Banks, member banks, and businesses are cooperating loyally and effectively. There is no reason at all to apprehend a banking or a money panic or to apprehend a situation in which solvent business men cannot borrow the funds which they need to protect their solvency. There is an increase in the amount of paper that has had to be renewed owing to inability on the part of many borrowers to reduce their inventories. Some good observers have the impression that inventories are actually increasing, but data to confirm this are inadequate.

The great banks in the Wall Street section in New York City have shown a substantial increase in loans in the last month. Bank loans on stock and bond collateral continue to go down, and commercial loans continue to increase. Loans on war paper are about stationary. Upstate banks have had to expend loans in connection with the milk situation. The producers of

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evaporated milk have been caught with large inventories and have largely stopped production. The farmers have been starting their own evaporated milk factories and have been borrowing from the banks heavily in the process: not much building is required in this, the process is simple, and the important thing is to carry the product until it can be sold. Bank expansion has occurred in connection with this.

Employment continues to decline in the New York District. There has been a decline from the peak, which came in March or April of this year, of about 9%, according to one official report. The same report indicates a decline of 2% in the last month. Other unofficial figures would suggest a decline of perhaps as much as 15% from the peak, but this would still leave employment only about 5% below normal, as the peak was much above normal. In some industries, however, such as textiles and automobiles, there has been a decline of from 30% to 40% from the peak in employment in this State.

There has been a stiff increase in reported failures, but the published figures are not yet abnormally large.

There is still a flow of funds away from New York City. Country banks continue to borrow. There has been some outflow of currency to Cuba.

Foreign exchange rates have declined progressively, the exchange market is nervous, and there is little basis for expecting early improvement.

The security market has been subjected to drastic cuts since November of last year and is still reactionary. Great slumps have occurred in the last month in the prices of common stocks of industrial corporations. Railroad common stocks, following a recent advance, have reacted somewhat. Preferred stocks are still declining. The edge is temporarily off the bond market: following a sharp rise, the prices of bonds have become stationary and, in some cases, have declined slightly. On the other hand, new note issues are being absorbed exceedingly well. There has been an increase in

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the last two weeks in the sales on British and Dutch account of American securities in the New York market.

Every bank statement shows that loans and discounts are going up, while deposits are going down. This is sufficient answer to the criticism from some quarters that the banks are not properly taking care of the commercial interests of the country.

H. B. HEPBURN.

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District No. 3 (Philadelphia)

The business situation in the Third Federal Reserve District may be described as being very "blue"; merchandise is steadily falling in price; in some instances as much as from 50 to 75 per cent, without finding purchasers. "With cotton for next month's delivery quoted below 19 cents a pound, refined sugar at 10 cents and raw sugar under 6 cents a pound, coffee around 7 cents a pound, wool and silk demoralized, and a large number of other materials and commodities selling below the cost of production, it is a question whether the readjustment in values has not gone far enough."

In textile lines the outlook is bad. Many mills working only one-quarter to one-half time, and some closed down altogether. Leather and glazed kid are particularly bad. Manufacturers have large stocks on hand, both raw and finished, with very few, if any, buyers. The retail trade has only within the past few weeks seemed ready to make a readjustment in their prices. The merchants are now advertising extensively, offering their stocks at greatly reduced prices, endeavoring to stimulate sales.

The public has apparently made up its mind that it has been held up and forced to pay exorbitant prices and is on a strike against the retailer, who up to this time has been unwilling to reduce his prices, and take the loss on his stock, but has been trying to unload before the readjustment comes.

Labor is much more plentiful and efficient, producing much more in a day's work; transportation has improved so that merchandise is moving more expeditiously. The Pennsylvania Railroad reports that it handled the highest volume of freight traffic ever transported on its system during the month of October. "Reports from all Divisions, which have just reached the general offices in Philadelphia, show that during the month an average of nearly 24,000 loaded cars per day, or 167,461 per week, were forwarded to their respective destinations. This represents more than 870,000 tons of freight

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a day, or over 6,000,000 tons a week, loaded on the Pennsylvania Railroad, or accepted by it from connecting lines. The nearest approach to the figures for October of this year were those of the corresponding month of 1919, when the daily average of loaded cars handled was 23,700." The farmer, however, still complains of his inability to move his crops to market because of scarcity of labor and car shortage.

The financial situation as far as the demand for money is concerned seems to have improved, although bank loans show but little reduction. The peak apparently has been reached.

Some borrowers have liquidated their borrowings; this is particularly true of the medium-sized business houses, but the large corporations and manufacturing concerns are borrowing heavily, goods having backed up on them because of lack of orders and heavy cancellations.

It is likely that a fresh demand for money will occur when the next quarter of taxes are due in December.

Altogether, we would say that business and financial conditions are far from satisfactory and that the January statements of business concerns are going to show heavy inventories and increased debts, with losses on account of heavy shrinkage in values. Business houses who have much commercial paper out through note brokers are likely to experience difficulty in renewing this paper when their new statements are exhibited.

L. L. RUF

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District No. 4 (Cleveland)

The Fourth Federal Reserve District has many and diversified industries, and except for some seasonal activity, the demand for credit may be said to be fairly constant.

The expansion of Bank credit in the past year has been, in some measure, caused by capacity operation of Plants, which have been largely expanded.

The orders necessary to run these Plants were in hand until quite recently, when cancellations began and new orders were largely held up; manufacturers, however, report some excellent inquiries, which are as yet unclosed. Where new business has been closed in iron, steel and machinery, prices have been cut by the successful seller or manufacturer. In many manufacturing establishments the working hours for the week have been reduced from twenty (20) to thirty (30) percent, in order to prolong work and avoid losing good men; in the large establishments, however, in certain industries some Departments have been shut down, and the operation of others reduced, so that many have been thrown out of employment. Collections are generally reported slow, and Notes and Acceptances are being offered freely by debtors in place of cash. Many of the farmers, instead of paying out, are asking for additional credit to buy live stock, and expect to consume their products by feeding them, hoping they will get more in this way.

The lumber people report a quiet business. Some lumber is being offered to dealers at considerably reduced prices; they are, however, unwilling to take on additional stocks, unless it is a specific material for which there is an immediate order in hand.

In the Burley tobacco District, the non-resident buyers are proposing to give Acceptances in place of cash, as heretofore. The figures are so large that the Banks will be obliged to re-discount with the Federal Reserve Bank, and with their City correspondents.

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The demand for coal has in the past few weeks greatly slackened, due no doubt to the prospect of decreased working hours, and a fair amount of supplies on hand, based on full working time. Prices have dropped thirty to forty per cent.

W. S. ROWE.

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District No. 5 (Richmond)

The Fifth District is largely agricultural. The more industrial and commercial sections find their market in the farming district, and are directly affected by conditions there.

Crops have been universally good, the weather fine for harvesting, but prices disappointing. The wave of prosperity following the high priced crops of last year led our people to prodigality in expenditures and they have apparently thought it impossible for prices to recede again. Now that recession has occurred, although from natural causes, the impression seems to prevail largely that there has been combination somewhere to prevent the farmer from reaping the fruits of his toil, and that in this to some extent the Federal Reserve Banks have participated.

In tobacco sections there is some improvement. The farmers are realizing that if business starts up they must set the ball in motion by marketing their products, whether prices are all that could be desired or not.

Cotton prices are so low that no one will sell, and, indeed, if offered in large quantities, there would be no market. The mills are running about half time. They have no advance orders. They cannot borrow money for storing the raw material or manufactured product, even if so inclined.

There is practically no building. Lumber yards are heavily stacked and are without orders.

Labor conditions are less strained, many industries are laying off hands, labor is plentiful but inefficient, wages being reduced.

The market for real estate, investment securities, etc., very active until recently, is largely curtailed, lands still high but no changing hands.

Collections slow, some failures and more would ensue if settlements were generally demanded. There is, however, a spirit of co-operation and everybody feels satisfied that present conditions cannot be long protracted and that a

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country as productive as ours must be fundamentally sound.

The banks are generally urging liquidation but are inclined to be lenient. They are granting short extensions with hope of gradual curtailment. They are seeking no new loans. They realize that without some movement of the crops and some repayments, funds cannot be furnished for holding crops or for other purposes. Many of the banks themselves are borrowing excessively.

Our people generally do not understand why, with good collateral, they cannot borrow all they want, nor why there should be a shortage of cash. A prominent citizen asked a few days ago, in all seriousness - What has become of all the money? Where is the Government printing press? Why cannot they print sufficient to take care of the crops?

The farmers had plenty last winter. They spent lavishly. They have borrowed to make their crops. They now see no reason why their products should not be readily marketed and not a few are indifferent as to whether their debts are paid or not.

In the last ten days of October, loans to member banks in the 5th District were curtailed everywhere except in North and South Carolina, being reduced from 136 millions to 132 millions. Our Federal Reserve Bank is now borrowing 10 million dollars, although at one time it was borrowing 30 millions. In both the Federal Reserve and State Banking systems some banks are uncomfortably expanded and these, as well as some commercial houses, need careful attention.

Lower prices are beginning to be noticeable but the people seem little inclined to buy. There is a large class who have an idea that in emergencies like the present, the Government should take care of them. This feeling seems to prevail throughout the country and the sooner we get away from it the better.

JOS. G. BROWN.

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District No. 6 (Atlanta)

In order to obtain a composite picture of conditions in our district at this time, I addressed a communication to bankers in the various financial centers located therein. I find pretty much the same story coming from Tennessee that is told in Louisiana, these representing the extreme ends of the district. The only variation in the telling of it is the difference in the commodities involved. The condition of the crop varies somewhat from a poor yield to a fair one but the market conditions are very much the same whether is be the products of the textile mills in Tennessee, the lumber of Florida, the rice of Louisiana or the cotton of Georgia. The only notable exception is the anticipated crop of annual tourists to Florida which will mature more rapidly beyond Thanksgiving. Florida is further favored by the largest citrus fruit crop in its history and the naval stores industry is reported to be in a prosperous condition. Tennessee is carrying a considerable volume of both cotton and tobacco over from last season as well as suffering from a stagnant market of the present crop. I was surprised to learn from one of my correspondents that some cotton of the best grade had sold recently at 17¾ cents.

In Mississippi the lumber industry is in a condition of prostration and her long staple cotton, the pride of her production, is no better off as to demand than its smaller sister of the short staple variety. A cotton producer of the delta country told me recently that he had made the most beautiful white cotton that he had ever seen, picked and ginned without receiving a drop of rain, the same kind of cotton which last year brought 97½ per pound but which this year could not be sold at 40 cents. He maintains that this is under the cost of production.

In Louisiana the problem of slow liquidation of cotton loans is being shared, and besides the sugar, rice, and timber production have their own burdens. The sugar acreage is greater than usual and while there are no

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indications of profit to the planter, there will probably be a fair demand at prices sufficient to liquidate the cost of production. The rice crop will reach the volume of about 13,000,000 pockets in the United States of which about two thirds must find a market abroad. The average price last year was around 11 cents while this year it will be around 5 cents. The sawmills are closing down as in other sections of the lumber belt. In Georgia the chief cause of financial concern is in the status of the cotton crop. The boll-weevil has done his worst there this year. The disposition to hold by the producer is quite marked. In that state as in other parts of the cotton area, even if the producer would sell there is but little demand due to the deranged condition of the export market.

In Alabama the conditions are much the same as in Georgia except to the extent that they may be changed by the industrial production. There is a slowing up however in the demand for pig iron and steel products and in the manufacture of machinery. These are all being somewhat affected by the Cuban moratorium.

The mercantile conditions in the Sixth District are not materially different from those in other districts unless it be that because of the remoteness of the merchants therein from large merchandise centers, that price reductions are much slower. Notwithstanding these adversities, there exists a very determined and cheerful attitude toward the problems of business throughout the District. The bankers together with those of other parts of the South are industriously engaged in organizing the Federal International Banking Company to be located at New Orleans. This will be under the Edge Act and will have a minimum capital of six millions of dollars.

OSCAR WELLS

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District #7(Chicago)

In general, the business conditions in this District have continued to follow the course which began earlier in the year. In various basic commodities, price recessions have continued as indicated by the various index numbers that have been published. According to Bradstreet's index, the total decline since May 1st is 18.5 per cent. The prices of textiles and hides have been especially affected, and there has been also a marked decline in the prices of chemicals and automobiles. On the other hand, the prices of iron, steel, coke, coal cement and glass show little change.

How far retail prices have been affected by the undoubted reduction in the wholesale prices of many commodities, it is difficult to state. To be sure, the United States Bureau of Labor Statistics publishes monthly index numbers of retail prices, which show a decline from the record high point of 215 in July to 203 in August, but these index numbers cover only articles of food, 22 in number. The large mail order houses have all announced reductions in prices, chiefly on account of the fact that most of them were overstocked and felt compelled to liquidate and stimulate the sales which have declined considerably. One mail order house (Sears Roebuck & Company) states that its sales for October showed a decline of 40 per cent from the same month last year. Another large mail order house (Montgomery Ward & Company) reports that its sales for October, 1920, showed a decrease of 37.9 per cent from October, 1919. A similar situation is indicated by the reports of other large retailers. It can, therefore, be taken for granted that liquidation is continuing.

It cannot be expected that there will be any permanent changes in many commodities until wages also decrease from their present high point.

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In this respect there has been very little change, though undoubtedly within the next months some adjustments will take place. In this connection one of the large steel companies, situated chiefly in Chicago, announced on October 26 that it was laying off 1,000 men. Still more recently it was announced in the daily press that an agreement had been signed in the building trades of Chicago to arbitrate all disputes arising before May 1, 1922. At the same time, the unions made a written promise not to ask for higher wages at the expiration of present contracts. All this gives rise to a belief that wages will follow adjustments in prices, though it may be somewhat slowly.

As regards the grain situation, the corn crop is the highest in fourteen years, and with four exceptions the best in twenty-eight years. It will amount to over 3,000,000,000 bushels, which is roughly 214,000,000 bushels more than in 1919.

The wheat crop of 1920 is somewhat smaller than last year's, the figures being roughly 752,000,000 bushels as against 940,000,000 bushels. The difference, however, is almost made up by a carry-over amounting to over 150,000,000 bushels.

The oat crop is also large, being about 1,444,000,000 bushels, which is 196,000,000 bushels more than last year and 29,000,000 bushels above the average for the last ten years.

As a result of the size of these crops and partly due to general conditions, prices have receded. Owing to these lower prices the farmers have threatened to withhold their crops until a higher price can be obtained. The effect of this was noticeable for sometime especially in the Southwest but more recently shipments of grain to the primary markets have very considerably increased and are now up to normal. The bright prospects

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in the Southwest for next year's crops have apparently had the psychologic effect on the farmers there of inducing them to let their grain go at current market prices. While throughout the Northwest the banks have exerted their influence to induce or enforce liquidation apparently with some success.

The situation in the cattle business, on the other hand, is really a serious one. At the previous joint meeting of the Federal Reserve Board and the Federal Advisory Council, a committee appeared to present the situation in regard to the cattle raising industry. The conditions then described have not improved, but those interested in the live stock industry of the country now realize that neither the government nor the Federal Reserve Banks can render additional aid. They have turned to the larger banks to relieve some of the dangers to the industry, and it is now proposed to have a group of banks situated in Chicago, New York, Boston, Omaha, Kansas City, Minneapolis and St. Paul, underwrite a fund of approximately $30,000,000 by means of which smaller and weaker banks may be aided in continuing to carry paper sold to them by intrinsically sound cattle loan companies. The Chicago banks have already agreed to underwrite $8,000,000 of this amount. It is hoped in this manner to help the situation, especially in the states of Montana, Idaho, Wyoming and the Dakotas.

It must be noted as a surprising fact, that in spite of the stringency in the money market, there has been no difficulty in floating new issues of securities. To be sure, in all cases the rates of interest and the terms of the issues have been unusually attractive. Among those of special interest to the Seventh Federal Reserve District may be mentioned the following issues:

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$60,000,000	Armour & Company 7% notes.
15,000,000	Morris & Company 7½% notes.
40,000,000	Swift & Company 7% notes.
50,000,000	Sears Roebuck & Company 7% notes.
8,000,000	Illinois Central R.R. equipment notes.
1,000,000	Public Service Company of Northern Illinois notes.
3,000,000	Liquid Carbonic Company 8% notes.
3,000,000	Pfister & Vogel Leather Company 7% notes.
5,000,000	Commonwealth Edison Company 7% notes.
500,000	Edison Electric Appliance Company 7% bonds.
400,000	S. F. Bowser & Company 6% notes.
$ 10,000,000	National Leather Company 8% notes
$195,000,000	

Notwithstanding an increase in savings bank deposits, an unusually large proportion of new issues have been placed with small investors so that it has been found advisable to issue securities in denominations as small as $100.00. Government war issues are also continuing to be absorbed by the general public in a satisfactory manner.

Business failures in the Seventh Federal Reserve District have been somewhat on the increase in about the same proportion as in the rest of the country. The failures, however, have been neither so large nor so numerous as to cause any anxiety, and on the whole represent merely the natural process of weeding out firms which were enabled to exist solely as a result of the abnormal conditions brought about by the war.

There has been considerable liquidation of deposits at the centers especially those of Country Banks, This has retarded the reduction in the borrowings at the Federal Reserve Banks by the larger member banks. However fifty one banks in Chicago reporting to the Federal Reserve Bank on November 5 as against 49 banks reporting on September 10th show the following contraction in their figures.

Loans and Investments reduced	$33,389,000.
Deposits reduced	18,014,000.

JAS. B. FORGAN.

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PRICE READJUSTMENTS: Some manufacturers and a considerable number of wholesalers, especially in textile, general clothing, and footwear lines, are making reductions in prices. In not a few cases they are frankly taking their losses, which, on account of the relatively high profits during the past six years, will not embarrass many of the concerns. The retailer in general is not showing the same disposition to reduce prices. This is due largely to the following reasons:

First: He has on his shelves a considerable stock of high priced goods upon which he wishes to get profit, or at least cost.

Second: The consumer is yet wary of buying.

Third: Many retailers are poor merchants, and neglect the first and last rule of good merchandising - namely, to turn their goods. They have become accustomed during the last several years, to such high profits that it seems impossible to many of them that they should have to sell goods either on a small, or no margin of profit.

The potential buying power of the public is yet very great but they had to pay such rapidly advancing prices during the war period, that they are rebellious. As a consequence, goods are not being turned at a desirable rate. A period of falling prices, succeeding one of very rapidly rising prices, does not - contrary to popular opinion - stimulate demand. The agriculture interests, especially those having wheat and cotton, greatly resent the falling prices, and are making efforts to hold their commodities. Collections in general are only fair. Normally, loans would be paid off at this season of the year, but many will continue outstanding for a period, until it is fairly clear both to the consumer and to the farmer, that nothing is to be gained from staying out of the market.

FINANCE AND CREDIT: St. Louis bank clearings between January and July, 1920, were from 6% to 10% above the same period of 1919. Since July, bank clearings for every week except one have been below those of the same weeks of 1919, the monthly declines being from 7% to 9% below those

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of July to November, 1919. Loans, discounts, and deposits of St. Louis banks normally increase between July 1st and November 1st. Last year the increase in loans and discounts during this period was 10%. A slight decrease of less than one percent was shown this year during the July-November period. While the volume of loans and discounts is greater on November 1st, 1920 than on November 1st, 1919, yet the increase occurred during the first half of the year. On July 1st, 1920, loans and discounts were but 33% greater than a year ago. But, due to the absence of the normal increase from July to November, loans and discounts on November 1st, 1920, were only 19% more than on November 1st, 1919. Thus, the demand for funds was greater so much earlier in the year, that the strain on the banks during last summer and early autumn was marked. This condition was accentuated by the decline in bank deposits between July 1st and November 1st of this year. Last year deposits increased 8% in this period. This year they declined 5%. The deposits of country banks with St. Louis banks, were 32% smaller on November 1st, 1920 than on November 1st, 1919.

LABOR SITUATION: There is little unemployment, and in practically no line is there a scarcity of labor. There is little or no disposition to demand increases in wages, and some groups of laborers are becoming interested in the prospect of holding their jobs at the prevailing wages. It is quite possible, with a further readjustment in prices, that the wage earner will be willing to accept a reduction if, after a period, it seems very evident that the manufacturer and distributor has stood all the losses which are possible, and fair for him.

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BUILDING CONSTRUCTION: Building construction has been, and still continues, on a very moderate basis. There has been a disposition to wait for lower prices in construction materials and wages.

SUMMARY: The general business and financial situation is not one which is occasioning any alarm. There is a feeling of confidence in the future. Few business men believe that we are soon to have boom times, and most of them are convinced of the necessity and are willing to accept the losses of readjustment. Indeed, there is a wide spread disposition to want to get on a sound, substantial basis as soon as possible. There are few who have any thought that a panic is threatened, but on the contrary, are calmly viewing a period of industrial slowing up, preliminary to a spring period of some industrial improvement, and substantial, if not exceedingly prosperous, business conditions.

F. O. WATTS.

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Business in the Minneapolis District is slowing down quite fast in all lines. This began late last spring, starting in the automobile and tractor business and gradually extending, until now it covers all lines. This District, being largely an agricultural one, our turnover is affected by the outcome of our farm products and the price which these bring. Grain crops, outside of corn, are not up to the average, wheat especially being below the average, and this latter is our greatest cash producing crop. The yield of corn is above the average, but this grain does not move to market early, it being mostly used up in feeding live stock, which brings in money to the country after the turn of the year. Oats, rye, barley, and flax, are as a rule below the average crop, with the possible exception of oats.

The very heavy cost of seeding and harvesting of this year's crop has been a drain on all of the banks in the District, and this, with the small return in bushels, in addition to the very severe break in prices during the past sixty days, is making a very difficult situation for all of the interior banks. Naturally, liquidation which goes on when these crops are being sold in the fall is being entirely changed, first, because of the fact that what crops the farmers have, at the present prices, are not sufficient to pay all their debts, and second, because of the break in prices many farmers are refusing to sell what they have, and there is shrinkage in their deposits from those who owe nothing and who will not sell their grain. Country banks are being importuned for additional accommodations, and as they are more or less in sympathy with the farmer in his endeavor to hold his grain for higher prices, they are in every way trying to meet this demand by borrowing from the Federal Reserve Bank and their other city correspondents.

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BANKING.

Conditions in the banking business are not easy, especially so in the interior banking points. Many banks find themselves heavily loaned up, in many cases with non-liquid assets, caused by the heavy speculation in farm lands and the purchase of tractors and automobiles, and the erection of new buildings. This forces them into the Federal Reserve Bank and the city correspondents for excessive amounts - much more than they ever were accustomed to ask for in previous years, making the situation far from easy and, in fact, in many places uncomfortably close.

The determined effort upon the part of the farmers to avoid the selling of their grain on the present low market is affecting collections, not only withtheir own banks but with jobbers and manufacturers, through the fact that local merchants in the various small towns are unable to liquidate their bills. This in turn stops the liquidation of loans to city banks from their larger customers, and from present appearances, means that a great many loans which are naturally paid before the first of the year are going to be carried over into the new year. There is one thing, however, which I believe to be a good thing, and that is the present closeness of money; and the loss which most of the farmers are up against on account of the prices is forcing the very closest economy, not only in expenditures but in purchases, and if this is carried through the next year I have no doubt that our District will show a very rapid recovery and our conditions be more nearly normal after the harvesting of next year's crop.

At the present time I cannot see very much prospect of the larger city banks being able to go out of debt to the Federal Reserve Bank for some months to come; in fact, my opinion is that they will be borrowers at the Federal Reserve Bank through the year 1921.

C. T. JAFFRAY

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Conditions in this District have been unusual and disappointing. The second largest crop of wheat was raised this year in Kansas and it was natural to expect that deposits would increase and loans would be liquidated, but on the other hand deposits did not go up and there has been a pressing demand for money. In the first place the Railroads could not furnish cars to move the wheat, and when the wheat began to decline the farmers did not care to sell, but recently the banks in the larger centers have been pressing the country banks to have the farmer ship any way enough of his products to pay his indebtedness. This move is beginning to show some result, but rather slow.

There appears to be nothing in the mercantile trade to indicate any decided change in the tendency prevailing for some time. The sweeping price reductions of the last few weeks seem to have unsettled the public to such an extent that purchasers are holding off buying beyond the actual necessities, expecting prices to go down still more. Wholesalers and retailers are more cautious in their buying than ever. Retailers are endeavoring to unload their high cost stocks and are buying from hand to mouth. The wholesalers have had some unpleasant experiences with their customers, some cancelling orders while others actually return goods which had been shipped to them.

Underlying these conditions there seems to be a feeling, however, that business will, with adjustments now going on, begin to improve after the new year. Whether the "wish is father to the thought" is to be seen later.

The live stock situation has improved. There have not been as many cattle coming to market as compared with one or two years ago. The farmers have abundance of feed and in all cases where possible the banks have tried to aid in carrying these cattle over as there is no question but that there

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is a shortage in meat animals.

Production of crude oil is about 400,000 barrels per day in Kansas and Oklahoma. The output is in excess of the consumptive demand and there is a tendency to hold back on development operation.

In the lead and zinc fields production of ores has been regulated by market demand. In October, for instance, nearly all the mines were shut down for period of two weeks in order to curtail the output and dispose of large surplus stocks.

Building operations have slumped perceptibly during the last half of the year, but with greatly lowering prices of material indications are that renewed activity will come along in this line.

E. F. SWINNEY.

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The depressed cotton market and cattle market hit hard the two principal industries of this district, making the loanable values of these commodities uncertain from the bankers' viewpoint, even if abundant funds were available, and as a consequence there is at the present time considerable pessimism,- with the cotton raisers primarily because they cannot borrow funds with which to carry over their crops, and with the cattle interests because many cannot get renewals and extensions of their present loans, and another large class are unable to borrow money with which to buy cattle to re-stock their ranges, the ranges as a whole being sparsely stocked at the present time.

These same conditions make the banker more cautious and, with uncertain markets ahead for both of said main commodities, the conservative banker is slow to avail himself of discounting privileges with the Federal Reserve Bank, and as a further consequence of this dual situation money remains tight with prevailing high rates.

From a general view point, however, conditions are thoroughly sound, as we have raised an abnormal cotton crop, which, even at the low price, when marketed will return a vast sum of money; and I believe I am safe in saying that the major portion of the cattle loans are being adjusted and extended, so that comparatively few cattle from this district are being forced upon the market and, as the range conditions are exceptionally good and cattle will remain fat during the winter, it is probable that a large amount of these loans will be liquidated, even before spring.

I believe every well-posted thinking man has the utmost confidence in the outcome, without very serious detriment or loss to any one who is reasonably conservative, though there is quite a considerable element that complain greatly and seem unable to realize that we are going through the necessary readjustment period necessitated by the inflation during war times, and many

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District No. 11 (Dallas)

seem not to realize that it is impossible to deflate without reducing and restricting to a considerable extent all commercial activities.

In my opinion one of the greatest works for the banker is to talk with and convince his customers, and all with whom he comes in contact, that we are going through a necessary period of re-adjustment, and such only as has followed all the great wars, but with our own country in better condition and experiencing less disturbance from this readjustment than any other nation in the world.

The banks of this district are as a whole in a thoroughly strong and safe position, and indeed probably some could be properly critisized for not being more liberal toward their customers, and to that end availing themselves to a greater extent of their discount privileges with the Federal Reserve Bank.

R. L. BALL.

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Financial and Commercial Situation in the Twelfth District with special reference to the Northwest:

Lumber: This leading industry of the Northwest shows a falling off due to increased freight rates which make it almost impossible for our mills to compete in the Eastern markets, although some of the tidewater mills are getting relief by water shipments. However, the railroads are now purchasing lumber which is keeping some of our lumber mills in operation. Housing conditions throughout the United States also would seem to indicate that before long there should be a pronounced demand for the output of our mills. As yet the average wage paid in our lumber mills, viz, $8.00 per diem, has not been reduced, but unless labor accepts a reduction of the present scale more of our mills will have to close down.

Wheat; Flour The farmers who are able to hold their wheat are not disposed to sell at the present price. Indeed, there is not much movement in wheat as buyers generally are out of the market due in large measure to the condition of foreign exchange. The result is there is comparatively little liquidation of this year's crop. Most of the country flouring mills have closed down and those who are buying are only purchasing in small quantities. This check in liquidation of our most important crop has resulted in the country banks leaning heavily on their city correspondents at a time of the year when usually the country banks are not only not indebted to the city banks, but on the other hand are carrying hansome balances.

Salmon: While the salmon pack on the Columbia River is moving and selling at satisfactory prices, nevertheless the demand for Pinks and other lower grades of salmon is so limited that there is a very large carryover of the Alaska pack which means a tieup by the banks of

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large amounts of money.

Fruit: Packing in this line was much curtailed this season by the high price of sugar. Although a goodly portion of the output has already been sold on contract, nevertheless apparently a contract is regarded by purchasers only as an option, since in many cases purchasers are endeavoring to be relieved from their agreements.

Cattle-Wool: The situation in the livestock industry is very serious. The absolute lack of demand for wool, making it impossible to dispose of the same, has caused a very large carryover, with a consequent tieup of funds. Both with cattle and sheep it is of paramount importance that provision should be made for carrying the stock through the Winter. Although hay is plentiful and is selling as low as $5.00 and $6.00 per ton (as against $20.00 to $25.00 last year) nevertheless it seems impossible for the stockmen to obtain funds with which to purchase feed. Without an adequate supply of feed the losses in the sheep and cattle business this coming Winter will be enormous. This, together with the forced sales now taking place of young cows and breeding ewes, not only will seriously cripple the livestock industry of the country, but also will endanger the meat supply of the United States.

General Business: Our wholesalers and jobbers continue to report business as good and generally claim that the volume is greater than for the same period in 1919. They state collections are fair but slowing down. All recognize however with conditions as they are throughout the Northwest, that sales must fall off, and in order to move stocks some are quoting lower prices to interior merchants.

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They also report some cancellation of orders.

Retailers in Portland, especially the department stores, shoe stores and clothing houses, are cutting prices from 25 to 35 per cent. They advise they are buying from the East only in small quantities, and to supply their absolute needs. Retailers state that the character of their sales has changed from a year ago. Whereas at that time they could not carry goods expensive enough to satisfy the demand, today the demand for high priced goods is small and consumers are buying lower priced articles.

Labor: As yet there is not much idle labor, nor any material reduction in wages, but with the approach of Winter and the possible closing down of logging and lumber operations there is a likelihood of a large increase of the unemployed during this coming Winter. How much trouble this will cause cannot be determined today.

Banks and Banking: From what has been said above one can easily see that the banks of the Northwest are all carrying a heavy load; country banks are leaning on their city correspondents and the city correspondents are doing their best to meet the situation; but with comparatively small liquidation of basic products, and with merchants and retailers still heavy borrowers, the financial situation is fast becoming serious.

While no criticism can be made in regard to the policy of deflation adopted by the Federal Reserve Board last Spring, it is a matter for serious consideration whether the continuation of the present policy of deflation may not become destructive

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District No. 12 (San Francisco)

and seriously affect the production of those things that are absolutely necessary for the maintenance of us all. If the Board and Council can devise means to ease up the present credit stringency without endangering our financial system, their determination will meet with universal commendation. In the writer's opinion a public statement from the Federal Reserve Board that

> "the legitimate carrying of commodities which must be consumed, such as grain, cotton, livestock and wool, will receive liberal support from the Board at this time"

would aid the banks materially in handling the present situation.

A. L. MILLS.

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MINUTES OF MEETING
OF THE
FEDERAL ADVISORY COUNCIL.

November 15, 1920.

At 4:15 P M. the members of the Federal Advisory Council returned to the Federal Reserve Board room in the Metropolitan Bank building.

Consideration of the matter of an amendment to the Federal Reserve Act to provide for a greater distribution of the profits of the Federal Reserve banks was on motion postponed until the February meeting.

In regard to the matter of Council members writing the Federal Reserve Board monthly letters on conditions in the Federal Reserve districts as suggested in Governor Harding's letter of October 23, 1920, it was thought that if each member brought such a report with him at the time of the regular statutory meetings it would be sufficient and it was left with Mr Forgan to make such an arrangement with the Governor of the Federal Reserve Board.

The Council then adjourned.

S E C R E T A R Y.

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