

## STATEMENT FOR THE PRESS.

For release afternoon papers January 8th, 1919.

Business conditions throughout the United States are reported by the Federal Reserve Board in its January Bulletin as follows:

The Business and Financial Situation in December, 1918.

Since the establishment of the Federal Reserve Bulletin the Federal Reserve Board has been in the habit of publishing monthly a report transmitted by each Federal Reserve Agent and intended to state the condition of business existing in his own district as observed by him. These reports proved of so much general interest that, a few months after their publication was first undertaken, the Board, in response to numerous local demands, authorized Federal Reserve Agents to make public their reports for local use on the first day of each month, while it continued the publication of the combined reports in the Federal Reserve Bulletin. Owing to the wide distribution of these reports on a date probably earlier than that on which the Federal Reserve Bulletin can be given to the public, and owing also to the pressure of matter for publication in the Bulletin, the Board has determined to discontinue the publication of these reports and to substitute in lieu thereof a business summary of its own, designed to furnish a general survey of national conditions. In preparing this survey the Board will make use not only of the reports of Federal Reserve Agents but also of the results obtained from its own investigations of prices, interest rates, and production in various lines. Pursuant to this plan the Board on December 17 issued the following letter to Federal Reserve Agents.

"The Federal Reserve Board has been publishing in the Federal Reserve Bulletin each month a summary review of business conditions which has been obtained from each Federal Reserve Agent. It understands the practice of the Federal Reserve Agents now is to make public these reports of business conditions, releasing them for newspaper use on the first of each month.

It is now proposed to make a change in the Board's method of using these reports. This proposed change will be as follows:

- (1) The reports will be expected as usual and upon the usual date, but their publication in the Bulletin will be discontinued after the present month.
- (2) In lieu of the reports of business conditions prepared by Federal Reserve Agents there will be published in each Bulletin a general review of business conditions which will be based upon the reports of the Federal Reserve Agents, and significant passages from the reports will be quoted.
- (3) Federal Reserve Agents will be expected to continue the local publication of their own reports of business conditions exactly as at present.

The effect of this plan will be to give each Federal Reserve Agent exclusive local use of his report, while the Board will publish its own national report. In view of this change it will be desirable to have as full and complete reports from the Federal Reserve Agents as practicable, and the restrictions as to length, limitation in the number of subjects treated, etc., which have heretofore been applied are hereby revoked. Each Federal Reserve Agent is urged to furnish as complete and full a review of business conditions in his district as he is able, the Board, as in the past, leaving it to his judgment what to publish locally.

Reports of business conditions, when transmitted by the Federal Reserve Agents to the Board, will be circulated among the members of the Board for information and will be placed on file for future reference after they have been used in the preparation of the monthly summary which is to appear in the Bulletin."

Important changes in the business and financial situation have occurred during the month of December. The transition from a war to a peace basis is now in full swing and far-reaching modifications in the organization of business are under way. Reports to the Federal Reserve Board from the several Federal Reserve districts show that the following significant factors may be enumerated.

- (1) Far-reaching modifications of Government control over industry, transportation, manufacture, and prices.
- (2) Extensive cancellation of Government contracts for manufacture and purchase of war goods and goods needed in connection with military operations.
- (3) Displacement and readjustment of labor resulting from the suspension of war production and the absorption of labor in industries which have thus far suffered from shortage.

(4) Changes in the volume of trade, indicating on the whole a slight tendency toward decline in volume.

(5) Revision of prices with considerable shrinkage in specified articles and on the average a distinct though slight downward tendency.

(6) Expansion of demand for banking accommodation and for capital.

In general, the transition from the war to the peace basis has thus far proceeded with very considerable smoothness and with decided lack of friction. Such slackening of business as has occurred is described as due to conservatism and hesitation, the outcome of a desire on the part of producers to know more of the public policies and the probable trend of business. In the New York district "industries are marking time, awaiting developments," due in part to "conservatism in buying" and "a feeling that prices will decline and to uncertainty as to the Government's policy relative to cancellations and the disposal of stocks and materials and supplies." Other districts report a similar condition of affairs, but add that the state of things is such as meets general approval and calls forth the opinion that the transition period is unavoidable and is proving beneficial in its effects. A strong tendency to defer commitments and to exercise caution before undertaking future contracts is noted in various regions. "Taken as a whole," says the First Federal Reserve District, "the situation is one of waiting for more settled conditions." From practically all districts comes the prediction that the slowing down will be temporary.

Thus far the process of readjusting labor to the new conditions has caused but little inconvenience or difficulty. Labor set free in war industries has been steadily absorbed by general business so that the principal effect thus far of the increasing free supply has been merely that of relieving a previously existing shortage. There is still an excess of demand at many points. In some places considerable numbers of employees have been dropped, but of these a part were temporary workers who had taken employment partly in order to aid war production, while many others have been promptly reemployed. Costs have altered but little, and the high expense of living has made employers feel that it is incumbent upon them to maintain wages, so far as practicable, pending distinct revision of prices for necessaries. In some cases it is reported that there is a tendency to a "settling down" upon "a higher level of prices and a higher average of wages than prevailed for some time preceding the war." From the productive standpoint, conditions continue to be satisfactory in most staple lines. Agriculture, in particular, is reported to be in an exceptionally promising condition. The farmer is said to be in "the best financial shape that has prevailed for many years." In the south he is holding his cotton for better prices and is marketing his output conservatively. Excellent crop prospects are reported, not only from the cotton region but also from the wheat States of the west and from California. On the Pacific Coast the prospects for excellent crops for the coming year are exceedingly bright.

In the live stock region "conditions are much improved" and cattle will probably go through the season in fair condition." There is an active and firmer tone in the beef trade, and record purchases of animals have been made. The movement of live stock to the leading markets of the Kansas City district continues very heavy. Tables which have been compiled by the Business Index Reporting Section show receipts and shipments of live stock at more than sixty important

markets for the first eleven months of the year at high figures. While compiled December figures are not yet available reports of Federal Reserve Agents indicate that this movement has been sustained during the past months. Iron and steel, so frequently taken as an authoritative index of business conditions, are unsettled on account of the cuts that have already been made and the expected new price basis for them and for their derivatives. Orders for new business are of some assistance, but they are not yet of a volume sufficient to indicate that prices have become settled. The market for steel is quiet and there is no disposition to make undue reductions in prices. Pig iron production in Birmingham for November was at about the same level as in October. Figures compiled by the Board's Reporting Service and published elsewhere in this Bulletin exhibit the present outlook for ingot steel, pig iron, and unfilled orders. The index numbers submitted in connection with the statistics for quantity production show a slight falling off in all of these three factors in the iron-trade situation for the month of November. Federal Reserve Agents' reports point to a further continuance of this movement during December. From Cleveland it is reported that in "all lines of iron and steel manufacture there may be said to be a waiting mood, a taking of stock, and a preparation for the future." Philadelphia producers regard the present reduction of the high tension of the last few years as very welcome, permitting the plants to be overhauled and placed in good physical condition for the expected large volume of after-war business. While coal production has not recovered the level which had been attained prior to the first of November, and while some shortage exists here and there, the output is again moving upward, car service has improved in certain sections and labor conditions are reported fairly satisfactory. The Board's study of coal production shows marked decline in monthly production of bituminous and an especially marked falling off in anthracite, while coke has fallen slightly, the figures exhibiting results up to the end of November. December developments indicate a tendency to recover from conditions thus depicted. The production of copper and of other metals which have been in exceptional demand during the war, is already showing the effects of conversion of industry to a peace basis. Zinc has been controlled, both in production and shipment, in the mid-continent field, while trading in copper and other metals has been comparatively limited. There is an apparent feeling that the price of 26¢ for copper, which continues fixed until January 1st, was too high for commercial business. The production of lead was about normal in November and stocks continue small. Producers of petroleum in the mid-continent district have only about three months' supply and regard the outlook as favorable. Stored stocks increased somewhat during the early autumn in California, but a shortage of gasoline is now expected.

In manufacturing the outlook is by no means uniform. Freight is moving fairly well, although some sections complain of delay. Munition industries have largely reduced their activity. Machine-tool manufacturing is demoralized on account of the cancellation of Government orders. Cotton and woolen mills have been running full, but the end of unfilled orders is now approaching and but little new business is being placed. Figures compiled by the Board for idle spindles in various classes of machinery engaged both in the wool and in the cotton industry, show a decided tendency to an increase in the percentage of idle machinery. Shoe manufacturing is also less active. There has been an increase in retail trade, due to the holiday season and some disposition to enlarge expenditures for personal consumption, not only on account of the usual holiday activity, but also in consequence of relaxation of economics due to the war.

At some points there would appear to be a development of extravagance.

Prices on the whole have shown only slight change, decrease in basic foodstuffs being offset by increase in dairy products, meat and groceries. Large changes have occurred in only a few lines. There has, if anything, been an advance in prices of consumers' goods, while raw materials have shown a disposition to decline. While these statistics relate to conditions only up to the first of December, preliminary reports for the early weeks of December indicate a maintenance of a practically similar situation. The average level of prices appears to be past the peak, but as yet with only comparatively slight movement downward. Thus far such changes in the prices as have occurred are apparently due to local and sporadic modifications of demand, due to alterations in employment and buying power, rather than to any fundamental modification of the underlying factors of production.

Up to the 15th of December the Board's Reporting Service shows that changes in rates of interest have been more marked than for some time past. In contrast to the month ending November 15th a general tendency may again be perceived, most districts showing a considerable decrease. In certain cases, conspicuous among which are New York, St. Louis and Minneapolis, the decrease occurs for practically all the types of paper for which quotations are given. On the other hand, rates in several districts on the whole show an increase, New Orleans and San Francisco being cases in point, while a small number of centers, among which Chicago may be mentioned, report rates practically unchanged from those prevailing during the period ending November 15th. Customary rates, in general with few exceptions, remain unchanged, the movement in rates being confined to changes in the high and low quotations. The decrease is most pronounced in the case of commercial paper and collateral loans. Rates for bankers' acceptances on the whole show a fractional decrease, while rates charged on interbank loans afford an approximately equal number of cases of increase and decrease. Rates on paper secured by Liberty bonds and certificates of indebtedness, which on the whole are lower than on ordinary commercial loans, or on loans secured by other collateral, remain practically unchanged. A greater degree of uniformity between rates prevailing in various sections may be observed in the case of commercial paper purchased in the open market than for practically any other type of paper, the rates in many instances being lower than those for customers' paper of similar maturities. prevailing

Total transactions at banks compiled by the Board up to December 18th show slight decreases in volume of transactions for individual account, but considerable gains in the volume of transactions for bank account. On the whole, the total volume of current business of banks included in 152 clearing houses remains about stable. Federal Reserve Bank operations during the latter part of the month show a tendency to a falling off in war paper. The money market has undergone but little change, but such change as has occurred indicates that national banks are again entering the commercial market as purchasers. The purchases have been sparing and made with discrimination, but in the middle west are said to indicate a gradual drift toward a more normal situation in the supply of funds. A similar situation in the Fourth District is reported, and although it is stated that money conditions are in no sense easy, the banks have now some funds to invest and are investing them in liquid paper. Collections vary considerably throughout the country and in some districts are reported very satisfactory, while elsewhere they are slow, apparently due to the fact that farmers are holding their crops for better prices.

Post-office receipts are showing a distinct decline in many sections. Pending the development of new conditions, building operations are still at a low level, although increase is expected as a development of the near future.

On the whole, the conclusions to be derived from a general review of industrial and commercial conditions, both as furnished by Federal Reserve Agents, and from the Board's own analyses, point to the distant development of the movement toward a normal or peace basis with very substantial alteration of conditions in particular lines, but with a good volume of output in the staple articles of commerce still maintained. Financial conditions, considering the great demands that are still made upon the banks, are satisfactory.

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FEDERAL RESERVE BOARD  
 WASHINGTON

M.C. Elliott  
 Counsel

January 4, 1919.

MEMORANDUM FOR THE BOARD:

From the accompanying file it appears that some confusion of thought exists in the minds of certain officers of Federal reserve banks and member banks as to the Board's interpretation of those provisions of Section 13 of the Federal Reserve Act which relate

- (1) To the power of member banks to accept drafts drawn in domestic transactions;
- (2) To the eligibility for rediscount by Federal reserve banks of member bank acceptances.

The understanding of this office of the provisions in question as interpreted by the Board is as follows:

POWER OF MEMBER BANKS TO ACCEPT DRAFTS  
 DRAWN IN DOMESTIC TRANSACTIONS.

Subject to the limitations prescribed by the Act, member banks are authorized -

- (a) To accept drafts or bills of exchange which grow out of transactions involving the domestic shipment of goods, provided shipping documents conveying or securing title are attached at the time of acceptance.
- (b) To accept drafts or bills of exchange which are secured at the time of acceptance by warehouse receipts or other such documents conveying or securing title covering readily marketable staples.

All drafts accepted in domestic transactions must be secured at the time of acceptance. If the aggregate amount of drafts accepted for one person, firm or corporation exceeds a sum equal to ten per cent of the capital and surplus of the accepting bank, such drafts must remain secured throughout the life of the draft since the Act provides that -

"No member bank shall accept, whether in a foreign or domestic transaction, for any one person, \*\*\* \* \* \* to an amount equal at any time in the aggregate to more than ten per centum of its paid-up and unimpaired capital stock and surplus, unless the bank is secured either by attached documents or by some other actual security growing out of the same transaction as the acceptance."

To give this language any meaning it must be assumed that the accepting bank may release the security in any case in which the total amount accepted for any one customer does not exceed ten per cent. of its capital stock and surplus, but must not release it if the amount accepted exceeds this sum.

Unless this interpretation is placed upon the statute, the provision just quoted would have no meaning in so far as it relates to domestic transactions since all drafts accepted in domestic transactions must be secured at the time of acceptance.

Member banks should be cautioned, however, that when Congress granted the power to accept drafts in domestic transactions, it clearly intended to facilitate domestic commerce and did not intend this power to be exercised for the purpose of extending unreasonable lines of credit to individual borrowers. If Congress had intended to give greater latitude to banks under its jurisdiction in the matter of loans to individual borrowers a much more direct method would have been to remove or broaden the limitations of Section 5200 Revised Statutes.

ELIGIBILITY FOR REDISCOUNT OF MEMBER  
BANK ACCEPTANCES.

Any draft or bill of exchange which a member bank has the power to accept is technically eligible for rediscount with a Federal reserve bank. This does not mean, however, that Federal reserve banks are required by law to rediscount any such acceptance tendered to it. In developing a market for acceptances the Federal reserve banks are called upon to carry a large amount of this class of paper. It is, of course, desirable that this market should be developed in order to give greater elasticity to the credit facilities of the member banks. It is important, however, that the Federal Reserve Board and the Federal reserve banks should take all necessary steps to insure conservatism in the exercise of the acceptance power of member banks. The policy of the Board, therefore, as reflected in its various rulings, has been to caution Federal reserve banks that in rediscounting drafts accepted in domestic transactions they should consider, and in many cases investigate, the circumstances under which the draft was accepted in order to determine whether the spirit as well as the letter of the statute has been complied with.

The Board has recognized the fact that in the ordinary course of business, shipping documents securing drafts accepted must be released in order that the customer for whom the draft was accepted may procure the goods represented by such documents. It also recognizes the fact that where such drafts are secured by warehouse receipts it is probable that at some period during the life of the draft it will be necessary for the receipt to be surrendered to the customer for whom the draft is accepted in order that the transaction involved may be consummated.

In the case of shipping documents, however, it is ordinarily necessary to release the documents at an earlier period than in the case of warehouse receipts.

In either case, the security should not be surrendered by the bank until this becomes necessary in order for the transaction to be consummated, and when surrendered, the bank should protect itself by requiring either a trust receipt or a definite agreement on the part of the customer to whom the security is surrendered that the proceeds derived from the sale of the goods represented by the shipping documents or warehouse receipts will be deposited with the accepting bank when available to pay the draft at maturity and will not be used by the customer for other purposes.

Respectfully,

(signed) M.C. ELLIOTT.

General Counsel.