

## F E D E R A L   R E S E R V E   B O A R D

## STATEMENT FOR THE PRESS

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During the month of May, there has been a noticeable upward trend in business, with evidences of great activity in certain lines, especially those closely related to the leading retail trades which have felt the release of buying power held back during the war and in the first months after the armistice. Practically uniform reports from all Federal Reserve Agents, point to a summer and autumn of unusual activity with many indications of "business prosperity" especially in agriculture and merchandise, and to some degree, in manufacturing. The country now seems to be passing through a period of free expenditure or reaction from the enforced economy and business restrictions of the war period. If the present activity should prove to be based principally on these causes, a reaction therefrom may be looked for when these forces have spent themselves.

From District No. 1 it is reported that "manufacturers and merchants in practically all lines are doing a large business and buyers who withheld orders awaiting lower prices are now purchasing heavily before costs advance further". From District No. 2 it is reported that business readjustment has gone forward despite prices and that the pressure of the retail purchaser, working from the bottom, has forced activity into the branches of industry where doubt in the future and disinclination to go ahead had prevailed because of the high cost of materials and labor. District No. 3 reports that the business situation continues to show improvement in many lines and that further increases are expected as the year advances. District No. 4 reports that "we are no longer awaiting prosperity, it is already with us. Business is

breathing easier." From the Fifth District it is reported that "improving conditions in trade have developed rapidly \*\*\*\* few unfavorable comments are heard, and optimistic reports are so general as to excite caution as to accepting them without qualifications". In the Sixth District "business in almost all lines has continued active, retail trade is still on the increase, and wholesale merchants also report an increased volume of trade." In the Seventh District "the volume of business \*\*\* is sufficiently large \*\*\* to indicate the enormous buying power which high farm prices, wages, and the production of the war period has created." The Ninth District reports that "industrially speaking, the outlook is for an active year. Wholesale business is active and retail trade is very satisfactory. Collections are good."

In the Tenth District correspondents of the Federal Reserve Agent "are more optimistic \*\*\*\* than at any time this year" and there is "cheerfulness on the part of bankers, merchants, farmers, manufacturers and wage-earners." All correspondents regard conditions at this time as favorable to a continuance of prosperity for many months to come. In the Eleventh District general and careful investigation tends to confirm earlier predictions that "business has reached a period of prosperity which was not only unexpected but, we believe, is not fully appreciated." The Twelfth District states that "manufacturing and industry have been active in most of the centers of the district. Wholesale and retail trade are good and collections vary from good to fair \*\*\*\*. Labor is now almost fully employed in all sections of the district except Utah."

The price and reconstruction situation throughout the country is practically a continuation of that already noted during the month of April. Prices in some districts are at "about the same level for corresponding months of last year," while elsewhere business men are reaching the conclusion that the return from war to normal conditions does not necessarily mean the pre-war level, but that "far-reaching and permanent economic changes" have been produced. Trade in some sections has "reached the conclusion that most of its fears have not been realized and were without foundation," while "merchants \*\*\*\* are in a condition of solvency which they have not enjoyed for many years." One Federal Reserve Bank finds that "the public is slowly adjusting itself to the conviction that there is to be no rapid post-war drop in prices and is reconciling itself to the probability that the old pre-war prices may never again be reached." What would have been accepted as a good pre-war volume of business is much less likely to be acceptable as sufficient volume for our reconstruction work.

The Board's index based upon that of the Department of Labor, shows that prices have exhibited no tendency to retrograde, but on the whole are moving slightly upward, the figure rising from 200 to 203 in April. The effect of this condition has been to bring about a condition of greater confidence and to develop a latent buying power which was apparently only awaiting decision as to the probabilities of the coming months before making itself felt. The increase is due entirely to the increase in the prices of raw materials and consumers' goods, the index numbers for the groups in question rising from 197 to 200 and from 206 to 210 respectively. On the other hand, the index number for the

group of producers' goods declined from 190 to 186, while among the sub-groups included under the head of raw materials the index number for the mineral products group likewise declined from 171 to 169, which, however, did not serve to offset considerable increases in the prices of both farm and animal products, the index numbers for the latter groups increasing from 235 to 243 and from 216 to 223 respectively. Reports of Federal Reserve Agents develop the conspicuous fact that this slight increase in prices has brought about a general belief that the time has come when business men may proceed actively with further commitments without running the risk which they had some months ago predicted of constantly shrinking values for raw material stocks.

Agriculturally, the remarkable promise of the early spring appears to be sustained in an unusual degree. Winter wheat still continues to warrant the forecast of a wholly unprecedented yield which has been made known by the Department of Agriculture. In the Kansas City District winter wheat is reported in excellent condition and growers are counting on the largest yield in history. Weather conditions during May have been beneficial in checking the too rank growth which was made by wheat in the early spring. The spring wheat acreage probably will not be much increased, due to weather conditions, but the prospects

for a large yield are said to be of the best. The Ninth District states that "soil and moisture conditions have been generally favorable throughout the month." In districts where crops have been poor for two years past the outlook is very satisfactory. In the corn-producing States the prospect is thus far very favorable and in the cotton region the outlook is for a "hopeful growing season". Diversification due to organized effort is making progress and the cash returns to farmers are expected to be unusual. On the Pacific Coast the staple crops have "made satisfactory advancement and are in good condition" although rain is needed. Some losses of fruit crops have occurred but the food outlook is promising. Grain movements to primary markets have for the most part been slightly heavier in April than in February and March, but shipments have been more than three times the volume of receipts. Flour production during the month of April amounted to 11,274,000 barrels as compared with 10,498,000 during the previous month, though stocks at mills at the close of the month on the other hand, show a slight decrease. In consequence of the increases in the price of flour which recently occurred, steps were taken by the Grain Corporation to check the rise, though the efforts in certain localities at any rate appear as yet to have met with little success. As a result of stimulated prices milling operations since April 1, have been about double those of the same period last year, but this increased activity has been experienced only by those mills which were able to obtain allotments from Government wheat stocks. It is reported from certain centers that the mills have booked sufficient orders to absorb the present stocks of wheat which are available but are unwilling to make further commitments in view of the decrease in wheat stocks. It has been remarked that during the past

year the United States raised insufficient corn to supply domestic requirements, due largely to the increased demand for feeding purposes. Speculative trading in the commodity has been exceedingly heavy of late with spectacular movements in prices and marked on the whole by a considerable increase.

From Chicago/<sup>it</sup> is reported that prices of cattle are considerably higher than a year ago, while prices of sheep are lower. Beef has therefore advanced while mutton and lamb have slightly fallen. Smaller receipts of hogs at the principal markets have resulted in a decrease in the stocks of pork and lard. Kansas City, however, reports that the cattle trade has been rather dull with prices slightly weaker, although they still show a considerable margin over a year ago. Hogs, however, have continued to advance, speculators paying up to \$21.

In Kansas City there was a decrease during April of 34% in the receipts of cattle, an increase of 34% in receipts of calves, a decrease of 7 $\frac{1}{4}$ % in hogs, an increase of 29% in sheep and an increase of 58% in horses and mules. Receipts of cattle during April at fifteen principal markets were 1,255,379 head as compared with 1,094,614 during March, the respective index numbers being 125 and 109 as compared with 1,533,147, corresponding to an index number of 152 a year ago. Receipts of hogs decreased from 2,842,663 head during March to 2,823,484 head during April, the respective index numbers being 129 and 128, while receipts during April 1918, were 2,942,449 head, corresponding to an index number of 134. Receipts of sheep on the other hand increased from 847,842 to 970,070, with respective index numbers of 62 and 71, as compared with 733,709 a year ago, corresponding to an index number of 54. It is expected that the export movement will continue on a large scale for some time to come.

In steel and iron the reports for the month show a reduction of output to what are said to be the lowest figures for a good while past. In spite of this fact prices of steel stocks as quoted on the exchanges have materially advanced. A notable development during the month has been the establishment of an open market for steel through the abandonment of the effort to stabilize values and prices, aided by the entrance of the Railway Administration into the market as a large buyer of rails and equipment. Bids for 400,000 tons of railway steel were requested by the Railway Administration on May 8 and 200,000 tons have been allotted. A much better tone in the steel and iron market is reported at various points, although the mill activity is said to be only about 70% of normal in the establishments of the United States Steel Corporation and 50% at independent mills. Pig iron production shows a continued decrease from 3,090,243 tons during March to 2,478,218 tons during April, the respective index numbers being 133 and 107. The latter is the lowest figure since February, 1918. Steel ingot production likewise shows a decrease from 2,662,265 tons during March to 2,239,711 tons during April, the index numbers respectively being 110 and 93. The unfilled orders of the United States Steel Corporation have also decreased from 5,430,572 tons at the close of March to 4,800,685 tons at the close of April, the index numbers respectively being 103 and 91, while the figure at the close of April, 1918, was 8,741,882 tons, corresponding to an index number of 166. The figure for the close of April, 1919, is the lowest since June, 1915, at the end of which month the total was 4,678,196 tons. Although pig iron trade in the Atlanta district is dull as it is elsewhere, the steel mills are active and rails are being rolled in preparation for a considerable trade. The high freight rates heretofore prevailing out of the Atlanta district have been a handicap, but a recent ruling by the Interstate Commerce Commission seems likely to give them access to trade in northern territory which has up to the present been impossible. While the bituminous coal industry is reported to be at present depressed and unsatisfactory, with an output less than

coal operators are optimistic for the future. The current use of fuel is in excess of production and stocks are being consumed, while an increase in the production of bituminous coal since the opening of May is noted. Shipments of anthracite for the month of April show a substantial recovery from the low figures for the two previous months, the tonnage for April being 5,224,715 as compared with 3,938,908 for March, the respective index numbers being 93 and 70. The production of beehive coke on the other hand continues to decline, the output for April being 1,316,960 tons as compared with 1,768,449 during March, the corresponding numbers being 50 and 68. It is reported from the New York market that after several weeks of almost no demand the copper market shows a slight improvement. Quotations have been reported as high as 16¢, while producing companies are operating on a 50% basis. Production of four large companies during the first four months of 1919 amounted to 122,541,610 tons as compared with 180,425,458 tons during the last four months of 1918. In spite of the reduced domestic output, stocks have continued to increase due in considerable measure to continued heavy importations. The lead market is somewhat firmer than it has been for some time past and the tin market is dull. From Kansas City it is reported that considerable reductions have occurred in the prices paid for zinc and lead ores and there has been a decrease in their production. It is reported that production in the lead industry, however, is at a considerably higher level than in the copper, zinc and iron industries.

During the month of April more than 1000 new petroleum wells were completed with new production of about 43,600 barrels daily in the Kansas City district. A substantial gain in production is now expected.

General manufacturing is showing decided improvement. The wool market is strong with prices in favor of the seller. Large orders have been placed with the mills both for yarns and finished goods. Weavers have operated freely in purchasing wool at Government auctions in the Philadelphia district.

Woolen and worsted mills are going back to full time with a large volume of orders. While fine wool is in considerable demand and commands high prices, low-grade wool on the other hand is in relatively little demand and a lower trend in prices is indicated. Fall orders for woollen underwear and high-grade hosiery are appearing in good volume. Very decided improvement has occurred in cotton milling and orders are being booked well into the fall. The demand is for the finer goods and prices have been advanced until they even exceed winter levels. There has been active buying from the new wool clip in the West. These conditions are reflected in the demand for dry goods and shoes which is one of the most marked symptoms of trade recovery in the month under review. Foreigners who are leaving the country in considerable numbers are reported to be carrying with them many pairs of shoes to meet needs abroad. Prices are being marked up for fall delivery, the outlook now being for an increase of 25 to 50¢ a pair for retailers.

Retail trade practically throughout the country is assuming unprecedented volume, while prices continue abnormally high. Retailers in most sections have made little or no adjustment but continue to demand prices based upon war conditions. In New York large establishments report a volume of business two-thirds greater than a year ago and in Chicago returns range from 25 to 50% in excess of 1918. The demand is largely for the highest class of goods with prices a secondary consideration only. In the South there is said to be "no contraction in the public buying power" while a greater proportion of cash sales is reported. In the Richmond District there is an "active trade, consumers buying freely without question as to prices." The effect of this active purchasing throughout the country is being reflected in the activity of wholesale business, advance orders for goods for autumn being reported satisfactory in volume, although still less than a year ago. Prices for cotton and wool goods have again advanced and retail stocks have in many cases been reduced to a low point. Retailers in some sections are actively placing orders for immediate delivery. The high

wages prevailing in most parts of the country and the increasing volume of employment creates a condition of remarkable strength in local business, both volume of sales and receipts of cash surpassing past records. Manufacturing is already feeling the impetus furnished by this continuation of strong purchasing power.

In building there has been a distinct revival throughout the country and particularly in the principal population centers marked advancement is now noted. Chicago shows a gain in building permits of 169% compared with a year ago, and similar or larger gains are reported in most of the large cities of the Middle West. In New York building has been retarded, although the need is very great, an obstacle being presented by the difficulty of obtaining satisfactory building loans, but the realty market is better than for the past eighteen months. The value of building contracts awarded in the Seventh District for the year thus far is about double those awarded in the same period of 1918. Advancement in building has been less noticeable in the far South, but such reports as are available point to a coming revival, while in some places the greater activity is already very encouraging. On the Pacific Coast reports from nineteen principal cities for April show an increase of 31% over March and 47% over April, 1918. In the states of the southern and eastern seaboard building is progressing rapidly. The Fifth District reports that the housing question is urgent and that there is considerable activity "in home sites and building, particularly apartment houses in cities". Real estate values are said to be hardening and in some places there is a decided boom, while sales of farm lands are on the increase.

Labor and employment conditions have made further progress toward normal. In the principal manufacturing centers it appears for the most part to be true that labor is fairly well employed. Skilled labor is generally in demand throughout the country and at unprecedentedly high wages. Notable advances of wages have occurred in the cotton textile mills of New England, the present wages of labor there being fully 100% above pre-war figures. There is an

increasing shortage of laborers on farms and of skilled mechanics in shipyards and although the supply of farm labor in many sections now equals the demand, an increasing deficiency is expected within the next few weeks. Unemployment is most frequent at points of disembarkation where returning soldiers are being mustered out of the military service, but even at these points good progress is being made in the process of absorbing the floating supply of labor. In the Southwestern cotton region the past ninety days has witnessed almost a complete reversal of previous conditions, and there is a greater demand for common labor than heretofore. Few strikes are now in progress, although here and there labor difficulties have been reported. This is particularly noticeable in the New England district, where it is stated that the increased cost of living, as well as the higher scale of living to which workmen have become accustomed, has had the effect of rendering the new rates of remuneration less satisfactory than the old ones, and as a result some unrest is reported in that district.

A remarkable feature of the business situation is the continuance of an enormous favorable export balance. This balance, according to official reports for the month of April amounted to the unprecedented total of \$442,000,000. While the shipments still consist largely of food stuffs and raw materials there are some indications of an advance in sales of manufactured goods and these are expected to increase from now on, granting that favorable provision is made for financing sales to foreign countries. Trade with the Scandinavian countries has shown special advancement, but business with South America, Japan and China has been partially checked. From the New York district it is reported that 75% of shipments now going forward represent orders placed and largely paid for some time ago. Shipping facilities have improved somewhat during the past month, but sailing dates of vessels are still very unreliable. Plans are in prospect for the development of methods of financing and facilitating the growth of export trade.

The month of May has witnessed some important, not to say remarkable, financial developments. The stock market has been passing through a speculative era

only comparable to that of three years ago. Transactions on the New York Exchange in the week ending May 17 were the largest for any week since 1901. The heavy purchases are attributed largely to the presence of out of town buyers who are in possession of large amounts of funds. In interest rates, however, despite this remarkable speculative activity, there has been a distinct downward trend during the month. This trend has been noticeable in almost all classes of paper, but particularly in the case of commercial paper sold in the open market, and also in the case of interbank loans, as well as a fractional decrease for indorsed bankers' acceptances. Prevailing rates for customers' prime commercial paper on the whole show decrease, while collateral loans on the other hand remain relatively firm. In the call money rate, however, there has been at times a distinct upward trend and on one occasion the rate reached a level of  $7\frac{1}{2}\%$  in New York. This figure, however, was maintained only for a few hours. The rate for paper collateralized by Liberty loan bonds has been slightly advanced in places, due to the desire on the part of banks to encourage customers to liquidate their obligations for overdue subscription payments. Liberty loan bonds themselves have commanded decidedly better prices during the latter part of the month of May, this result being attributed to the popularity of the fifth Victory notes whose value was in a measure reflected upon other classes of Government securities. The banking position of the country is reported as on the whole sound, present circumstances considered, and <sup>reserve</sup> percent-ages of the Federal Reserve system have shown an ability to hold their own. Transactions at clearing house banks which report to the Board show essential stability with a slight tendency toward an increase in volume.

A remarkable feature of financial developments during the month has been the sharp decline in quotations of most foreign currency. Lire and francs have established new low rates going respectively to 8.36 and 6.70 up to May 20, while sterling, which had shown some ability to reach higher levels, has again