

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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The following is a review of general business and financial conditions throughout the several Federal Reserve Districts during the month of May, as contained in the forthcoming issue of the Federal Reserve Bulletin.

Changes in prices, as well as in both business and credit conditions, occurring during the month of May, have borne witness to the presence of disturbing factors, whose importance and persistence are, however, as yet uncertain. Local reductions in retail prices have occurred at a considerable number of points and have at least suggested the advent of a serious modification of the price level throughout the country. More careful analysis has shown that there has been no material alteration in the underlying conditions affecting the situation, there being no decided increase in the volume of production sufficient to create a more normal relationship with consumption, no substantial change in the volume of credit extended, and no greater disposition to economize and invest than heretofore. The changes that have taken place cannot, therefore, be looked upon as indicating a modification of underlying conditions. They may, however, afford a basis for changes in business relationships that may broaden into more far-reaching alteration of the essential price structure. The continuance of labor difficulties and unrest, particularly in connection with the railroads, when added to the difficult situation produced by car shortage and lack of equipment, has caused considerable interruption to business operations, and the whole outlook has been such as to bring about a severe curtailment in the volume of stock and

securities transactions and to compel very material lessening in the market value of Liberty bonds and of other securities of the first grade.

In district No. 1 (Boston) there is noted a trend toward greater discrimination and economy in buying, with pressure for lower prices, but there is also noted very great difficulty in the way of actual deflation.

In district No. 2 (New York) price reductions are noted in retail stores, a considerable accumulation of goods awaiting shipment resulting from strikes, a growth in the cost of doing business, great reduction in securities prices, but nevertheless a continued high demand for goods, and activity in trade.

In district No. 3 (Philadelphia) the congestion of freight and accompanying conditions have combined with a quieter state of things in the markets and a larger relative public demand for medium and lower priced goods, to alter in some respects the general drift of development of preceding months.

In district No. 4 (Cleveland) an orderly movement back toward a more solid and substantial footing is noted, although not all business men are agreed on the outlook. Business conditions, however, are said to be fundamentally sound.

In district No. 5 (Richmond) unrest and uncertainty in commercial fields have continued, and agitation against high prices has led to some curtailment in purchasing. Collections are good, on the whole, and the most serious cloud on the present situation is the traffic outlook.

In district No. 6 (Atlanta) the peak of high prices has been reached in most lines and the tendency is downward, while there is some indication of reduction in stocks of goods. Unrest still prevails on account of high prices.

In district No. 7 (Chicago) decided readjustment in economic conditions

is anticipated, one factor in which is the growth of indications of general reductions of prices. The transportation and associated difficulties noted elsewhere in the country appear to be especially acute in the Chicago district, while the labor situation shows small improvement.

In district No. 8 (St. Louis) the volume of business is enormous, the total in both manufacturing and distribution showing broad gains over the corresponding period last year. The peak of the upward movement is, however, believed to be reached. Productive conditions have been unfavorable agriculturally.

In district No. 9 (Minneapolis) crop conditions are promising. The demand for credit is very strong and the business outlook is satisfactory, although there is a disposition to be cautious.

In district No. 10 (Kansas City) there was during April the first "real recession from the high tide of activity" of the past year or more. There has been a curtailed movement of livestock and grain, resulting from bad transportation conditions accompanied by severe financial hardships upon producers and shippers. Retail trade has slowed down but the general situation is regarded as one of encouragement, although more or less unsettled conditions are expected to prevail during readjustment.

In district No. 11 (Dallas) there has been a slowing up of agricultural, business and financial operations which, however, has had some beneficial effect. Prices have continued upward but the falling off in demand has affected largely the higher priced articles. There is recognition of "a healthy spirit of caution among bank borrowers and users of capital".

In district No. 12 (San Francisco) the prospects for good crops are better than at any time this year, although the season is late. Car shortage has hurt lumbering; building has been less active; and retail trade has

fallen off slightly as compared with a month ago.

The arrival of the time for active effort in connection with crops has introduced a new factor into the situation in those districts where agriculture is the chief industry. In the cotton region the movement of the 1919 crop has continued to slow up, while farming conditions in the southwest (district No. 11 Dallas) have not been very favorable. Planting is late and much replanting has been found necessary. Undue drouth has been only partly relieved. Livestock ranges are in fair to good condition and the condition of animals is reported good. In district No. 6 (Atlanta) preliminary inquiry indicates that while planting is not complete there is a disposition to increase acreage. The progress of the crop has been greatly delayed. Actual damage to crops thus far through unfavorable weather has been small. With respect to wheat it is reported by district No. 9 (Minneapolis) that spring wheat acreage will be 12% less than a year ago, owing to shortage of farm labor, but that there will be increased seeding to flax, barley and oats. Corn ^{acreage} is expected to be unusually large. Livestock conditions are improving, but the herds are in poorer condition than at this time a year ago. In district No. 10 (Kansas City) winter wheat made good progress in April. Abandonment of acreage is not as large as was at first reported. In some States of the district, notably Oklahoma and Nevada, conditions are very much better, but it is still true that a large reduction in acreage has taken place. Corn planting is slow; cotton is also retarded. In the middle west (district No. 7 Chicago) there is a great demand for credit in agricultural districts, the serious shortage of farm labor, as well as cold weather and large rainfall having hindered farm work. Spring wheat acreage has been restricted, but the crop is now doing well. The outlook is "fairly promising". The transportation "tieup" is reported from all districts as having prevented normal movement to the markets as well as for export, and a

correspondingly larger use of credit. Large stocks of both corn and wheat are being carried on farms, in elevators and elsewhere. Agitation designed to bring about some relief of the labor shortage may produce better conditions in the near future. From district No. 10 (Kansas City) it is reported that Kansas had 35,500,000 bushels of wheat in storage, as against 11,000,000 a year ago. Throughout the district the delay in the movement of products is serious.

The favorable conditions for livestock reported from some districts, notably Dallas, Kansas City and Minneapolis, encourage the belief that the year's output will be better than was expected. This continues the expectations already reported a month ago. In livestock, as in grain, however, the movement to the markets has been delayed.

In iron and steel, demand has continued very heavy and steel mills are booked far ahead. The ore situation is, however, not improved. Lake transportation has been slow. The railroads can handle only a small portion of the ore which is ready for shipment. A shortage of coal in the northwest is expected. Shipments of ore for April were only 231,000 tons, compared with 1,400,000 in April, 1919. In district No. 3 (Philadelphia) the general iron and steel market has been much quieter lately and buying has slackened. The level of prices continues firm. Some mills have been fortunately situated in possessing a large supply of raw materials, and orders in practically all lines are booked for a long time ahead, so that manufacturers feel that the present year should be a time of continued prosperity. This, however, is largely contingent upon the development of better transportation and improvement in labor conditions. In district No. 6 (Atlanta) pig iron production has increased somewhat over 1919, but there is a decrease as compared with March. Pig iron prices are advancing. Steel plants are well

supplied with orders and working on full time. Commercial work in fabricating plants is active and prospects bright. The unfilled orders of the United States Steel Corporation at the close of April were 10,359,747 tons, corresponding to an index number of 197, as compared with 9,892,075 tons at the close of March, the index number for which month was 188. Pig iron production during April decreased to 2,739,797 tons as compared with 3,375,907 tons during March, respective index numbers being 118 and 146; while steel ingot production likewise decreased from 3,299,049 tons during March to 2,638,305 tons during April, the index numbers being 137 and 109 respectively.

Coal conditions have been particularly important in connection with iron and steel, as with other industries. The state of things in regard to coal is now very acute in some districts. In district No. 2 (New York) the supply is far below the demand and consumers are bidding against one another. Railroads "are more or less the victims of systematic sabotage at their terminals". The car supply at the mines is only 30% of normal, while the labor situation there is also unsettled. The situation as a whole "is such as to cause considerable concern among conservative coal men" and transportation is regarded as a fundamental factor requiring improvement. In the middle west (district No. 4 Cleveland) coal shipments have fallen off. For April, at lake ports they were about one third of what they were in April, 1919. Lake shippers will pool their coal in order to increase the movement, but this is only a partial remedy. Fuel prices are the highest on record in the lake trade. Not only does a general shortage of coal exist now, but a shortage next winter which may curtail production of iron and steel at interior furnaces is foreseen. In district No. 6 (Atlanta) the coal production is being held down, mines being able to get only an insufficient number of cars. Labor, however, shows no discontent and there is small

movement of coal in foreign trade. Railroads throughout the district have placed orders for fuel for the next twelve months, "the amount in every instance being larger and the price higher than ever before". Production of bituminous coal for the country at large during April amounted to 32,006,000 tons, as compared with 46,792,000 tons during March, and 32,164,000 tons during March, 1919, the respective index numbers being 86, 126 and 87. Labor difficulties, although sporadically existing, appear to be a relatively minor factor in coal production as compared with the influence of car shortage. In the southwest many bituminous coal mines are operating at only about two-thirds of capacity. No reduction of prices is in sight. Demand for petroleum continues very strong. In the Kansas and Oklahoma oil fields April output was about 10,500,000 barrels, or slightly larger than in March, as compared with about 9,000,000 barrels in April, 1919. Production still tends to increase. The California output was about 275,000 barrels a day, as compared with 276,000 in March. Stored stocks have decreased nearly 500,000 barrels. At the present rate of production and consumption, the stored stocks in California will probably be exhausted before the close of 1921.

Metal mining has shown a slight improvement in Colorado, despite some shortage in labor, while lead and zinc have shown a price reaction on the Joplin market, although much of the output is still in cars and on the sidings. The average price for lead ores is one of the highest for many months, but the supply of ore is ^{insufficient} to meet demand. Production, however, is fairly well maintained.

General manufacturing has continued in substantial volume, although unsettled conditions of labor and uncertainty on the part of retail buyers have had a restrictive effect. In leather and shoes production is reported by district No. 1 (Boston) to be low and "quantities of merchandise extremely

high". Prices of leather are down to 80¢ from a peak of \$1.75 per foot. Dealers stopped buying about the middle of May. Some manufacturers have had overtures for cancellations which have been refused. In district No. 5 (Richmond) no recession in prices is expected. Tanners in district No. 3 (Philadelphia) are not optimistic about present conditions. Some tanners manufacturing for foreign trade contemplate shutting down. There is an insufficiency of labor. Retailers are restricting their orders for shoes. Wholesalers and jobbers are overstocked. Manufacturers are receiving some cancellations. Increased buying, however, is expected in the near future and most manufacturers are continuing to operate at capacity. The outlook is for "a steady volume of business but at lower price levels".

Textile production has been subject to many disturbing conditions. In the New Bedford district of Massachusetts, textile strikes of some importance have occurred. An advance of wages of about 15% in the principal textile centers of New England has been announced. High prices for cotton continue with very little indication of a reduction. Spinners, however, are cautious, believing that prices on fine cotton yarn have reached the top. In knit goods demand has practically ceased at the present time. Goods for fall delivery have been quoted at twenty to thirty per cent below those of spring. Cotton yarn continues at a high level. "The outlook in the trade (for knit goods) is very uncertain" but "many manufacturers hold to the belief that orders will soon be placed in great numbers". In wool the auction sales at Boston have resulted in the purchase of only about 30% of offerings, and prices were off about 20% from the previous sales of English wool. Prices of American wool are off 10% and on lower grades 10 to 15%. There is some letting up in the demand of the purchasing public for the finer grades of cloth. Cancellations of orders in both cotton and wool have not been large but are already noticeable. Clothing manufacturers are purchasing but little

from the weavers in district No. 3 (Philadelphia). They also are receiving numerous cancellations and are obliged to make concessions to retailers. General wholesale trade, in spite of unsettlement due to conditions already described, holds up tolerably well.

Building activity continues well sustained in many sections, although seriously curtailed in certain districts, such as Chicago, by the shortage of materials and by increased prices. From several districts it is reported that new construction is largely confined to business building as against construction for housing purposes. The character of building operations has resulted, it is reported, in a lessened demand for lumber, whereas in the case of brick, cement, etc., as just noted, demand outruns supply. In certain districts complaint is made of difficulty in financing construction, and in some of the larger centers the great increase in rentals has resulted in a large growth of purchasing of syndicates of tenants.

The labor situation during the month has been one of the outstanding elements of doubt and difficulty. In addition to intense shortage of labor on farms and at other points of primary production, sporadic strikes in many lines of manufacturing, notably textiles, have continued to indicate unrest. Wages have apparently fallen behind the advance in prices and cost of living. The movement of labor from the farms to the cities is continuing. Various demands for higher wages have been taken under advisement for the purpose of bringing about compromise adjustments between employers and employees. General complaint of low efficiency or small output per unit of labor continues to be prevalent. The difficulty of getting skilled labor in some of the more highly developed lines of manufacture is very considerable.

The financial occurrences of the month have been of first importance.

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In addition to a heavy decline both in volume and value of securities in the financial centers, there has been a general tendency to revision of interest rates. This has applied both to call and time funds and to rates for commercial paper. No material change in rediscount rates at Federal Reserve Banks has occurred but an effort to limit credit to essential necessities has been general. It has been sought to promote this control of credit through conferences among bankers and discussions of the financial situation at meetings of bankers and financial authorities generally. On May 18, an important conference between the Federal Reserve Board and the Federal Advisory Council and Class "A" Directors of Reserve Banks occurred in Washington, as the outcome of which agreement was reached to make a more careful scrutiny of applications for bank credit, with a view to granting those only which might be found to be necessary.

It was further agreed that caution must be exercised and commitments must be made only with discretion.