

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

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STATEMENT FOR THE PRESS

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The following summary of general business and financial conditions in the United States, based upon statistics for August and the first half of September, will appear in the October issue of the Federal Reserve Bulletin and in the monthly reviews of the Federal Reserve banks.

Industrial activity, which had increased substantially during the summer, showed a sharp advance in the first half of September after the outbreak of war in Europe. Prices of basic commodities and equity securities rose sharply while prices of high-grade bonds declined.

Production

In August, the Board's seasonally adjusted index of industrial production was at 102 per cent of the 1923-1925 average as compared with 101 per cent reached in July. Volume of manufacturing production increased further, but mineral production declined, owing to a temporary curtailment in output of crude petroleum. In the iron and steel industry output increased somewhat further in August and rose sharply in the first half of September, steel ingot production reaching a rate of 70 per cent of capacity in the week ending September 16 as compared with about 63 per cent at the beginning of the month. Automobile production showed about the usual sharp seasonal changes in this period as the shift to new model production was being made. Output of plate glass increased sharply. Production of nondurable manufactures advanced in August, reflecting chiefly increased activity at cotton and woolen textile mills. At meat-packing establishments activity declined less than seasonally, while at flour mills, where output has been at a high rate in recent months,

there was not the usual large seasonal increase. Shoe production advanced seasonally. At coal mines output increased by about the usual seasonal amount and shipments of iron ore were at the highest rate of this season. Petroleum production declined sharply during the latter half of August, reflecting shut-downs of wells in most of the principal oil producing states, but increased rapidly in the first half of September when the wells were reopened.

Value of construction contracts, as reported by the F. W. Dodge Corporation, increased somewhat in August, owing to larger awards for publicly-financed projects, including several large dams and an increased volume of United States Housing Administration projects. Private residential building showed little change, although there is usually some seasonal decline. Other private construction, which in July had been the highest for any month in two years, declined in August.

Distribution

Department store sales increased more than seasonally from July to August. The Board's adjusted index advanced from 86 to 89 per cent of the 1923-1925 average and was at about the level reached in the latter part of last year. Sales at variety stores showed little change in August.

Freight-car loadings rose somewhat further in August, reflecting chiefly continued increases in shipments of coal and miscellaneous freight.

Commodity prices

Prices of most basic foodstuffs and industrial materials advanced sharply in the first half of September. Prices of wheat, corn, sugar, cocoa, and vegetable oils as well as of hides, rubber, wool, zinc, and tin showed the largest increases. The general level of wholesale commodity prices as measured by the Bureau of Labor Statistics index rose 3.1 points and in the

week ending September 9 was at 78.4 per cent of the 1926 average, about the same level as a year ago.

Agriculture

Crop prospects showed some improvement on September 1 over a month earlier, according to the Department of Agriculture. Indications are that production of all leading crops except cotton will be average or above average in volume. A cotton crop of 12,380,000 bales, about 10 per cent below the 1928-1937 average, is forecast. This compares with a crop of 11,940,000 bales in 1938 and an estimated world consumption of 11,265,000 bales of American cotton during the past season.

Government security market

Average yields on long-term Treasury bonds, which had advanced fractionally since last June, increased sharply by about 1/2 of 1 per cent in the latter half of August and early September. In pursuance of the System's policy of endeavoring to maintain orderly conditions in the money market, the Federal Reserve banks during the first half of September increased their holdings of Government securities by about \$400,000,000. On September 1 the Board of Governors of the Federal Reserve System announced that the Federal Reserve banks are prepared at this time to make advances on Government obligations to member and nonmember banks at par and at the same rate of discount.

Bank credit

Total investments held by reporting member banks in 101 leading cities declined during the first half of September. At New York City banks the decline represented the redemption at maturity of Federal Farm Mortgage Corporation bonds and at banks in other leading cities it represented the sale of Treasury bills and bonds. Commercial loans of city banks showed a substantial growth during August and the first half of September.