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BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Statement for the Press

For release in morning papers,
Monday, August 19, 1940.

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

Volume of industrial output was steady during July and the first half of August, after a rapid expansion in May and June. Employment continued to increase. Reflecting mainly awards for national defense projects, construction contracts rose to the highest level in ten years. Prices of basic commodities declined somewhat further.

Production

In July the Board's revised index of industrial production stood at 121 per cent of the 1935-39 average, according to preliminary data. This is the same as in June and 17 points above the level prevailing a year ago before the outbreak of war. In most lines activity was maintained at the levels reached in June or increased further.

Steel production in July was at about 85 per cent of capacity and in the first half of August there was an increase to about 90 per cent. Production of pig iron and coke and output of nonferrous metals were also in large volume. In the machinery, shipbuilding, and aircraft industries, where new orders had been large during the first half of the

year and a considerable backlog of unfilled orders had accumulated, activity was maintained at high levels in July, although ordinarily there are declines at this season. Lumber production declined sharply early in July but has subsequently increased accompanying a considerable rise in new orders.

In the automobile industry output declined sharply in July and the first half of August as plants were closed to prepare for the shift to new model production. The decline was greater than at this season in other recent years, reflecting the fact that production had been at high levels during the first half of 1940 and large stocks had accumulated. These stocks were reduced considerably in July as production was curtailed and retail sales continued large.

Textile production increased considerably further in July, reflecting chiefly a marked rise in activity at woolen mills where output is still below the levels of a year ago. Production of cotton and rayon textiles was maintained in July and was in larger volume than last summer, while activity at silk mills increased somewhat from the exceptionally low level reached in June. Shoe production increased seasonally, while output of manufactured foods, which in June had been unusually large for that time of year, showed less than the customary increase in July.

Coal production has risen further and shipments of iron ore down the Lakes have continued at near-capacity rates. Petroleum production has been curtailed sharply, however, reflecting partly a continued high level of stocks of petroleum products.

Value of new construction work undertaken increased sharply in July, owing mainly to a further rise in public construction, and was at the highest level in the past decade, according to reports of the F. W. Dodge Corporation and the Federal Reserve Bank of San Francisco. Awards for both residential and nonresidential private building increased somewhat, although some decline is usual at this season.

Increases were most pronounced in the Atlantic, Gulf, and Pacific Coast States, reflecting awards of additional contracts for naval air station and shipyard construction. In the central portions of the country there ~~were~~ generally small increases, although in some areas awards were lower.

Distribution

Distribution of commodities to consumers was sustained in July at about the levels prevailing in the first half of the year. Sales at department stores declined more than seasonally, while sales at variety stores showed little change, although a decline is usual in July.

Total freight-car loadings increased seasonally in July. Shipments of grain showed a considerable rise and loadings of coal and coke continued to advance, while shipments of miscellaneous freight, which include most manufactured products, declined by somewhat more than the usual seasonal amount.

Commodity prices

Prices of basic commodities declined somewhat further from the middle of July to the middle of August, with decreases chiefly in prices of commodities influenced by foreign supplies, such as lead, rubber, cocoa,

and coffee. Prices of steel scrap and zinc, on the other hand, advanced somewhat in this period.

Agriculture

Prospects for most crops showed little change in July, according to the Department of Agriculture. Production this year is expected to approximate the 1929-38 average and, considering carryovers, supplies of most crops will be large. Conditions for wheat and oats improved during July, while the corn crop showed some deterioration. A cotton crop of 11,429,000 bales was indicated for this season as compared with 11,817,000 bales last season.

Bank credit

Total loans and investments at reporting member banks in 101 leading cities increased substantially during the five weeks ending August 14, owing mainly to purchases of direct and guaranteed securities newly issued by the United States Government. Sale of these securities caused a large increase in Treasury balances with the Federal Reserve Banks. As a result of this temporary development, excess reserves declined by \$450,000,000 in this period despite an increase of over \$500,000,000 in monetary gold stock.

Government security market

Prices of United States Government securities were relatively steady during July and the early part of August but declined slightly around the middle of August accompanying news of intensification of European warfare. The yield on the 1960-65 bonds increased to 2.39 per cent on August 14 compared with 2.34 per cent on July 1 and 2.26 per cent on April 2 at the year's peak in prices.