Report on Business Conditions

Federal Reserve Agent at New York
to the
Federal Reserve Board

New York, September 20, 1919

Summary

THE financial record of the last thirty days shows a stock market recently adjusted to stricter banking requirements but marking time; a bond market on which Government issues have preponderated; a new investment market much larger than is customary at this season, and a money market which has been at once steadier and easier than for several months. The decline in rates, following the heavy redemption on September 15th of United States certificates of indebtedness, was immediate and pronounced. Foreign exchange rates on Europe have continued to go down and export trade is looking to South America and the Orient for a great part of its business. The increase in South American business was mainly responsible for the higher export figures for August.

Certain products at the core of the cost of living are declining in price. Corn, oats, pork, live beef and flour have lowered from 8 to 20 per cent. since the end of July. Hides which bear importantly on shoe and leather prices are down about 15 per cent., and certain grades of cotton goods also have declined. Moreover, there are signs of credit liquidation, which would be a natural accompaniment of reduction in the scale of prices. Retail prices are slow to follow reductions in the wholesale markets and may be expected to keep up as long as buyers continue to purchase without regard to economy.

Labor difficulties are general, based chiefly on the desire of laboring people to secure a larger share in the returns of industry. The cost of living seems to be a secondary factor. At this time there is increasing public irritation with strikes which affect the production of articles of vital necessity, and the more conservative among labor leaders are responsive to this point of view.

Money and Banking

The extraordinary event in the money market during the last month was the redemption on September 15 of United States certificates of indebtedness. On that day the Federal Reserve Bank of New York paid $348,000,000 of certificates aside from those received in payment of taxes. On succeeding days this amount increased to about $374,000,000. The effects of the release of this large sum of money were wide-spread. Call money on the New York market declined immediately to 4 per cent; within three days the borrowings of member banks at the Federal Reserve Bank fell off about $225,000,000, indicating a heavy, though perhaps transient, liquidation; time money became easier and commercial paper rates declined to 5¼ and 5 per cent for best names, and the dealers reported increasing demand. Moreover, as the Treasury Department foresaw, the decline in rates created a particularly favorable market for the new issues of certificates of indebtedness, subscriptions for which opened on September 15. In three days subscriptions received at the Federal Reserve Bank amounted to $437,000,000, most of which were for the one-year certificates bearing 4½ per cent.

A second and highly important factor in effecting a decline in the money market was a smaller demand than usual for crop-moving funds. Prior to the establishment of the Federal Reserve System the west drew heavily on New York for funds with which to move the crops, but in the last five years there has been a perceptible decrease. This decline appears to be particularly heavy this year not only on account of the operations of the system, but because the wheat crop promises to be some 300,000,000 bushels less than early reports indicated, a fact which releases a corresponding amount of credit. Moreover, the west has enjoyed a period of great prosperity. Coupled with the high prices realized on cereals, livestock and lumber is the activity of new manufacturing enterprises, and the result is an increasing self-dependence of the west in financing its crops.

The comparative ease of the money markets in the last thirty days is shown in a comparison of the rates with those of the preceding month. In the earlier period call money rates rose as high as 20 per cent, whereas in the August-September period they have ranged between 3½ and 8 per cent. The low rate was touched only one day and the high rate twice. On August 20 the rate rose to 8 per cent in anticipation of the repayment to the Federal Reserve Bank of Government deposits. The renewed stock exchange activity in September was attended by a second rise to 8 per cent on September 8. This high rate attracted funds from the interior, where accumulations of money had been established in anticipation of crop movements and then found to be in excess of requirements.

The time money market up to the last few days of the period has been quiet and featureless. Dealings were light and confined chiefly to the shorter maturities. Rates remained virtually unchanged at 5¾-6 per cent, with practically no loans at the lower rate. During the last week there was greater freedom in the offerings of funds for four and six months' periods by interior banks, a fact taken as a further indication that requirements for crop-moving were not as large as had been expected. Throughout the period there was an active demand for acceptances from both out-of-town and New York buyers. By September 15 dealers reported that their portfolios were nearly exhausted. Rates remained unchanged.

Aside from purely technical deficits in lawful reserves shown in the clearing house statements of August 23 and September 20, the experience of New York banks did not deviate from the ordinary. On August 23 the precipitating cause for the deficiency, which amounted to $813,000 was the withdrawal of Government deposits in the amount of $50,000,000. The deficiency was converted into an excess of reserves, as shown in the statement of the following week, chiefly through rediscounting at the Federal Reserve Bank. Concurrently the loans and discounts item increased $105,000,000. In the week ended September 20, the banks reduced their borrowings at the Federal Reserve Bank to such a degree that the clearing house statement showed a deficit in lawful reserves of about $53,000,000. With the payment of the September 15 maturities of certificates, the deposits increased. New York bank clearings for August decreased 10.7 per cent from July, reflecting a diminished stock exchange activity. Compared with August a year ago, however, bank clearings were up 30.5 per cent. The following shows the total of each week of the period:

Week Ended	Amount
August 16	$4,568,624,891
" 23	4,352,525,182
" 30	3,908,421,593
September 6	3,826,699,121
" 13	4,284,959,648

Stock Market

It appears that the stock market on or about August 21 entered upon a new phase of development. The New York stock exchange houses and their customers, especially the latter, did not become deeply impressed with the necessity of adapting their dealings to the new conditions in the money market which developed in June and July until about the middle of the latter month. Thereafter the general process of reducing the aggregate amount of call loans, and inducing the margin buyers of stocks either to take up the shares bought, or else increase the margins behind them, required a little more than a month.

The liquidation incidental to this readjustment brought down the Wall Street Journal's average price of twenty industrials from 112.23 July 14 to 98.46 August 20. Money conditions had been quite readjusted by about the first of August; but the adaptation of the stock market to new conditions proved as usual to be a rather slow process. So it was that the past month which we are now considering proved to be the first one in very recent times wherein the stock market ceased to respond to the general expectations of expanding business and growing prosperity, and began to recognize the money conditions incidental to the crop movement and autumn business.

During the last week in August, while investment opinion as to the new situation was forming itself, the volume of dealings was relatively small, being only about 700,000 shares per day. But the first week of September was characterized by substantial buying in a group of industrial shares, which were thought to be cheap; and this activity, in which the public as well as the professional traders participated, brought the dealings up to more than 1,400,000 shares daily.

By the beginning of the second week of September the public buying seemed to have largely spent itself at least for the time being; and the dealings became more professional as well as smaller. They centered too, in stocks less highly approved by conservative judges of values. Money and labor conditions as well as the crop conditions disclosed by the September report for the Government, have been fully considered by the buyers and sellers of stocks; and thus at this writing the market seems to have worked itself into the neutral or balanced position of having discounted the factors which have thus far come into sight. The second week of the month was distinctly one of equilibrium rather than of development along any definite line.

Bond Market and New Financing

The bond market of the past month has been a continuation of that of the previous month or six weeks, except that it acts as though the adjustment to new investment conditions were now more nearly complete. At least this adjustment is going forward more slowly. In railroad bonds the pronounced weakness of July and August has been succeeded by mere heaviness and dullness. Reports of railroad net earnings have not improved of late; but the bonds in declining five to six points since the end of last year are perhaps considered by investors to have discounted the unsatisfactory railroad situation.

Public utility bonds are generally selling no lower than they were a month ago. There was weakness in the local traction issues during the second week of September, but lighting and power company bonds have been generally firm. Industrial bonds within the past month have been the heaviest group; but their reaction amounts to nothing more than the loss of a portion of the substantial rise which they enjoyed during the year ended June, 1919. The dealings on the stock exchange have centered mostly in United States bonds, while transactions in state and municipal issues have been light, and those in railway and industrial bonds have been very light.

The absorption of new securities by the investing public is much larger than usual for this season of the year. The general rule is that as the volume of capital required to finance the crop movement increases, the amount of liquid capital seeking investment in stocks and bonds diminishes. Preliminary reports show, however, that for the month ended September 15 there have been issued in this market, $48,216,100 of preferred stocks paying 7 per cent and yielding 6 to 8 per cent on the offering price; $10,678,000 of municipal bonds, not including short term loans, the income basis of which varied from 4.3 to 4.9 per cent; $24,500,000 industrial bonds paying 6 per cent and offered on a 6 to 6¾ basis; and $40,920,000 of common stocks. This is a total of $83,394,100 of new investment issues, not counting the common stocks. Railroad securities play an insignificant part in this total and public utility issues not a large part. Besides these there is the usual assortment of petroleum and real estate securities. In general character the securities offered show no change from recent months.

Foreign Trade and Foreign Exchange

Preliminary reports from the Department of Commerce show a decided gain in exports during August, not however sufficient to bring the total back within reach of the unprecedented figures for June, about $920,000,000. The figures for July were about $570,000,000, and for August about $646,000,000. The item of chief interest in the August report is the growth of business with South America. The June exports to Europe were almost precisely the same as the August exports to the world. The decline in exports to Europe not only accounts for the falling off in our total of exports, but it points to the probable course our business with Europe will take as long as present conditions prevail. There is little doubt that Europe will need American food products in very great volume, but the extent to which our other products will continue to be exported is problematical. The increase in the August figures for South America supports the opinion which has come to us from many exporters, that our shipments of manufactured articles to South America and the Orient may be expected to be greater than such exports to Europe.

There appears to be a profound belief in the requirements of Europe for American material and American manufactured articles. But there is a difference of opinion as to how far American commerce can take advantage of it, because Europe is finding it increasingly difficult to pay for her purchases. At this time European exports to a large extent are financed by letters of credit placed with local banks by foreign merchants operative in thirty, sixty and ninety-day periods, and payments are made by drafts at the rate of exchange prevailing on the date of drawing. Longer credits in many cases are desired but bankers hesitate to grant them save where the supply of necessities is involved. Thus it appears that the automatic tariff set up by adverse exchange rates is already protecting European markets from American products, except for articles and materials most vitally needed. Vice versa, the relative parity of exchanges between the United States and South America and the Orient relieves such trade from that obstacle.

August imports amounted to $308,000,000, as against the July total of $345,000,000, which was the highest on record, and $296,000,000 for June. For the eight months ended August 31, 1919, the favorable trade balance amounted to $3,012,000,000, as against approximately $2,000,000,000 for the corresponding period of 1918.

Rates in principal European exchanges have continued to decline almost without interruption, and a number of new low records have been established. Sterling demand after dropping to 4.12 under an increased offering of bills rose soon after the middle of August to 4.24¾. The rally lasted but a short time and the rate soon dropped back near the low level, ranging for the rest of the period between 4.18¾ and 4.13½. Both francs and lire established new low records. Francs declined very sharply from 8.32 on September 8 to 9.21 on September 16, due to unsuually heavy offerings of commercial bills. Lire shared in the decline, falling over the same period from 9.73 to 10.14.

WEEK ENDED	AUGUST 23		AUGUST 30		SEPTEMBER 6		SEPTEMBER 13		SEPTEMBER 20	
	High	Low	High	Low	High	Low	High	Low	High	Low
England	4.24¾	4.12	4.24	4.19¼	4.18¾	4.13¾	4.17½	4.14½	4.17¼	4.12½
France	7.98	8.19½	8.00	8.12	8.17	8.38	8.32	8.68	8.74	9.20
Italy	9.30	9.57	9.58½	9.66½	9.64	9.74½	9.73	9.79½	9.96	10.14
Spain	19.65	19.12	19.20	19.08	19.20	19.02	19.10	18.92	19.10	18.80
China	129.50	128.00	129.50	129.50	129.50	129.50	128.50	128.50	128.50	128.50
Japan	50.50	50.50	50.50	50.50	50.50	50.50	50.50	50.50	50.50	50.50

Cost of Living

Developments under way are sufficient to indicate that if the cost of living has not already fallen, it should speedily do so. Bradstreet's average, based upon the wholesale prices per pound of 31 articles of food, fell from $5.30 July 31 to $4.86 September 11. Here is a decline of 8.3 per cent, which, when duplicated in retail prices, should go far toward solving a vexing problem.

For lack of any comprehensive and reliable up-to-date averages of retail prices, however, one is left in doubt as to whether the cost of living has receded materially thus far. Retail prices instead of fluctuating rapidly in proportion to wholesale, move only in a slow and reluctant manner. Not until dealers are convinced of the permanence of new price tendencies, do they become willing and ready to change retail quotations in sympathy with wholesale.

But so great is the disapprobation of excessively high prices that the opinion that the downward movement will go on is gaining ground. Hence the declines in wholesale quotations in many quarters may prove significant. In the six weeks from August 1 to September 15, spring patent flours went down from $12.25 per barrel to $11.25; No. 3 yellow corn at New York from $2.14 per bushel to $1.69; and No. 3 white oats from 88½ cents to 80½.

Likewise, live beef per hundred pounds fell from $10.00 to $8.75, and mess pork per barrel from $58.00 to $48.00. No. 1 native packer hides which strongly influence shoe and leather prices, have fallen from 53 cents to 42, and there have been recessions in cotton goods, spices and other articles.

Crops

The winter wheat crop for New York State fell slightly short of what was expected, but nevertheless it aggregated 10,428,000 bushels, an increase of 52 per cent over last year's production. Spring wheat planting was 5,000 acres less in this district this year than last, with an estimated yield of 15 bushels per acre. This indicates a crop of 680,000 bushels as compared with 1,000,000 in 1918. The United States Bureau of Crop Estimates also expects the oats crop to be only half of last year's and the barley a trifle less than three-fifths of the 1918 production. On the other hand the outlook for hay and corn is extremely promising. The hay crop, it is estimated, will be the largest within fifteen years except for the bumper crop of 1916, and, as compared with 1918, it is estimated that production will show an increase of 1,015,000 tons. A corn crop of 40,141,000 bushels is forecast, an increase of approximately 14 per cent over 1918, despite the fact that the acreage this year was smaller than last by 15,750 acres. Though crops in some localities are lighter than usual, high prices for farm products will maintain rural prosperity.

Building

The distinctive feature of the building situation is that now for the first time in several years the amount of building under way is fully up to normal, whether measured in value or in quantity. Indeed as to value, it is far above normal, while even in respect to cubic enclosure or floor space, it is apparently somewhat above.

The Middle States, meaning New York, New Jersey and Pennsylvania, show building permits to the value of $63,445,624 for August, and of this New York City alone represents $45,053,811. The increases in these states over 1918 were 114.6 per cent in number of permits, and 331.2 per cent in value. Both of these percentages somewhat exceed those of the United States as a whole. On the basis of contracts awarded, the total for August in New York and Northern New Jersey (figures from the F. W. Dodge Company) amounted to $69,861,000; this in spite of adverse labor conditions which are affecting almost every branch of the building trades. The contrast of the present situation with that at the beginning of the year could not be more marked, inasmuch as building operations in respect to quantity, did not then exceed one-fourth of normal.

Iron and Steel

The unfilled orders of the United States Steel Corporation at the end of last month showed another substantial increase. They were 6,109,103 tons against 5,578,661 at the end of the previous month, and as compared with a recent low record of 4,282,310 tons. Nevertheless it is reported that the new orders booked are running below those of a month ago. Unfilled tonnage is slow in responding to variations in bookings, because it requires roughly four to six months to make deliveries on the typical order. The last week of August found many of the independents operating at 80 per cent of capacity, and the Steel Corporation 10 per cent higher.

Pig iron production, too, thus far continues to expand. The average daily output for August was 88,496 tons as compared with a low record of 68,002 tons and with 109,341 tons for August, 1918. The furnaces in blast on September 1 exceeded those of August 1 by nearly 8,000 tons daily capacity, so that the preliminary indication is that the September output should exceed that of August. Actual results, of course, will depend not only upon the strike, the extent of which at this writing is problematical, but also upon the demands of steel makers.

However, the expansion of the domestic demand for steel has been accompanied by some loss of interest in the export market. Our July exports, the latest for which figures are available, were only 287,828 tons of iron and steel as compared with 457,233 a year ago. Besides this, for the first time in some months, a decline in price has occurred in one of the principal types of finished steel. Tank plates for the week ended September 9, fell 15 cents per hundred pounds, whereas other finished products ever since the January and February readjustment have been holding firm.

New tendencies, too, are being displayed in the old material market, which is the first to show even slight variations in the condition of the steel trade. Old materials steadily advanced up to about the end of the first week of August; but since then there have been quite a number of declines. These include car wheels, heavy steel scrap, and wrought iron. Thus the steel market is in a position of equilibrium awaiting some new impulse.

Cotton Market

Both spot cotton and the options have been subject to wide fluctuations. This seems to represent not so much any change in the fundamental position of the commodity as in the daily and temporary news and trade reports. At all times throughout the past month the statistics of crops, production, supply and consumption have been such as to indicate, so far as partial data are competent to give indications, that the world's 1919-20 consumption should exceed its production. The government report showing the condition as of August 25 indicated a total yield of 11,230,000 bales as compared with the indication of 11,016,000 a month previous, but the destructive storm in Texas occurred after the figures were compiled. Further, the ginning report showed that the amount ginned to September 1 this year was only 138,993 bales against 1,038,079 for the corresponding period of 1918, and 614,787 for the like period of 1917. Prices for spot cotton on the New York market have ranged between 32¼ cents and 28.95.

Dry Goods and Textiles

The best evidence of the weakening of the cotton goods market is furnished by the prices obtained at the second Government auction of surplus cotton cloths, held at New York on September 4. At the first auction held July 30, the general prices obtained were equal to or exceeded the prevailing market prices. At the second auction, with market prices quite a little below the July levels, most of the fabrics offered did not bring more than 90 per cent of the current price. The uncertainty of cotton prices in the second week of September had its effect on unfinished cotton goods and print cloths, which had recently sold at 16½ cents per yard, and were then selling at 14¾ cents. Prices named on colored cottons for the spring of 1920, averaged, however, a trifle higher than the Government war time maximums, because of underproduction at the mills.

The Bureau of Market's wool consumption figures indicate that the production of woolen and worsted goods is heavy. During July, American mills used 63,300,000 pounds compared with 64,500,000 pounds in July, 1918, when woolen mills were rushing out orders for military and naval purposes. Among manufacturers of woolen and worsted dress goods and men's wear fabrics the opinion prevails that if goods are priced any higher for spring there will be a serious halt in consumption. It is not to be assumed, however, that among those who have the money, there is shown to be much inclination to take anything but the highest priced products.

The silk industry is once more hard hit by labor difficulties. This time it is the dyers at Paterson who are on strike and the silk workers in Pennsylvania, where the bulk of black and other staple silks are made. Production has been curtailed by the shorter working day and by strikes and labor unrest. There is no particular scarcity of raw material, but some shortage of partially manufactured materials, such as yarns.

Labor

Labor difficulties have been general in the past month but it is felt, nevertheless, that the situation in this district is beginning to improve. Strikes are becoming more unpopular because of their interference with business, their stimulation of prices and their upsetting effect upon the daily living of the people. The restraining influence of this sentiment is felt by labor organizations, especially among those of more conservative leadership. It is noteworthy in this district, as elsewhere, that foreign-born workers have been the readiest to strike, while the American-born have been inclined to stay at work.

Quite aside from world-wide labor disturbances strikes at this time in this country are quite in accord with economic experience. In past periods of prosperity, when the demand for production has been at the peak, strikes have been most prevalent. Experience teaches that as a general rule wide-spread strikes are in the nature of a fight for a larger share of the returns of industry, rather than of a struggle against the high cost of living. Admittedly strikes show a broad tendency to increase and diminish with the rise and fall of the index numbers of commodity prices; but on the other hand even when commodity prices are low the cost of living problems with laboring people is often the most serious because of the general unemployment, and yet strikes do not occur in large numbers at such times.

Figures taken directly or indirectly from the compilations of the Department of Commerce and Labor indicate that the prevalence of strikes increases with prosperity and diminishes in times of depression; and our present experience is no exception to this general rule. The number of strikers involved in prosperous and unprosperous times are here contrasted:

Prosperous		Unprosperous	
Year	Strikers	Year	Strikers
1890	285,900	1884	117,313
1902	553,143	1896	183,813
1906	550,000	1905	200,000
1910	550,000	1907	175,000
		1914	160,000

In applying the inference drawn from this record to the present case, especially as it may apply to the future, due regard should be given to the abnormal conditions of this post-war period. Undoubtedly the aspirations born of the war, or at least greatly enhanced by it, that the workers should have a greater share in the returns of industry, have much to do with the unrest with which this country has been confronted. The movement of wages as recorded by the New York State Labor Bureau is noteworthy in this connection; the average weekly wage after rising from about $12.50 when the war began to $23.18 last December has merely held firm around $22.00 for some months past.

This is the first issue in this form of the report of the Federal Reserve Agent at New York. It will be issued monthly and is intended for the information of member banks and for those who have participated in its preparation. Copies may be obtained by addressing

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