Report on Business Conditions

Second Federal Reserve District

From the Federal Reserve Agent at New York
to the Federal Reserve Board

New York, February 20, 1920

Business Currents In the past thirty days there has been a continuation of the acute demand for money, shown in a further rise in interest rates. The remarkable demand for goods has continued and commodity prices have risen to the highest levels ever known. At the same time there have been evident a slowing up of the rapid pace of the last six months, a growing belief that a reaction from these high levels was in store, and a disposition to reduce commitments. Shares on the stock market have persistently declined and a further contraction in the volume of trading as compared with recent months has taken place. There has been evidence also of waning speculation in commodities. A further and sensational fall in foreign exchanges brought almost all the principal quotations to new low levels, from which they have somewhat recovered.

On the other hand there was a notable increase in the booking of steel orders and a pronounced buoyancy in the steel market. The totals of new incorporations also showed an increase over those of the two previous months and were not much below the October maximum; but only a fraction of the stock authorized is intended for immediate issue.

Credit and Banking The effect of the increase in the Federal Reserve Bank discount rates, announced on January 21, is evident in a generally conservative attitude of banks and business men toward industrial expansion at this time, and in a substantial liquidation of speculative commitments. During the last thirty days there has been a gradual reduction in bank loans in this district, more than two-thirds of which has been in the decline of loans secured by stocks and bonds. Since last October, when bank loans in this district were at their highest point, they have declined nine per cent.

The contraction of bank credit which has taken place in this district, particularly in New York City, has not had its counterpart in the country as a whole. In the four weeks ended February 13, the 71 banks in New York City which report weekly to the Federal Reserve Board reduced their loans $178,000,000. The 733 reporting banks elsewhere in the United States, however, increased their loans in the same four weeks' period $67,000,000, thereby partially offsetting the decrease made in New York City. The reduction of loans on stocks and bonds, in so far as any has been made, has taken place in this district. Thus, while New York City banks were reducing such loans $130,000,000, banks elsewhere kept them on the average almost stationary at the level of a month ago.

Bank deposits in this district declined rapidly, continuing the movement, unusual for this time of year, which was observed a month ago. The deposits of New York City banks decreased from January 16 to February 13 $275,000,000. Of this $136,000,000 was in a single item of Government deposits, which have been withdrawn rapidly during the period. Elsewhere in the country, despite the increase in loans, deposits have declined $116,000,000.

The following table gives the important figures:

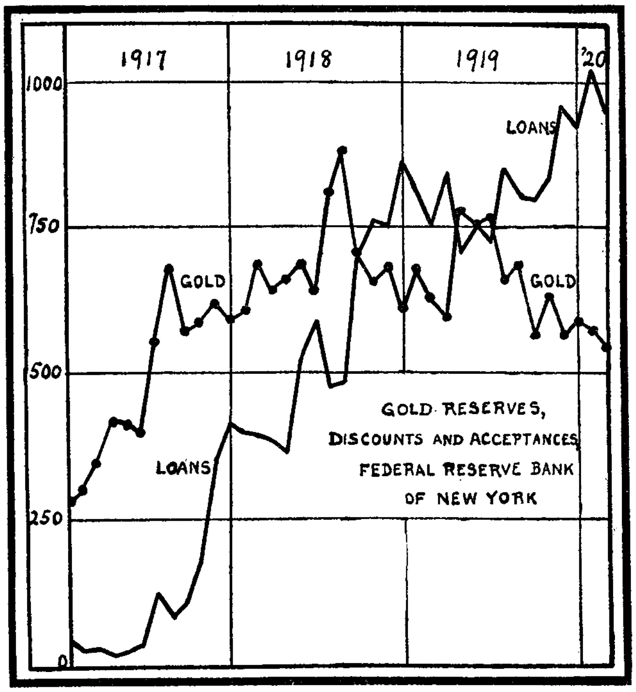
LOANS, ETC., AND DEPOSITS

(In Millions)

Date	71 Reporting Banks in New York City		804 Reporting Banks All Districts*	
	Total Loans and Investments	Total Deposits	Total Loans and Investments	Total Deposits
February 13, 1920	$5,341	$5,017	$15,715	$14,209
February 6, 1920	5,424	5,065	15,814	14,178
January 30, 1920	5,479	5,117	15,844	14,258
January 23, 1920	5,486	5,147	15,866	14,326
January 16, 1920	5,519	5,292	15,826	14,600
October 10, 1919	5,850 (highest)	5,397	15,476	13,699
January 3, 1919	5,153	4,763	13,637	12,071

*The number of reporting banks throughout the country increased from 757 on January 3, 1919, to 804 on February 6, 1920. In the same time the reporting banks in this district increased from 65 to 71.

The evidences of contraction indicated above are not reflected in the reports of the Federal Reserve Banks. On the contrary, member banks have materially increased their demands on the central institutions, not only in this district but elsewhere. The total earning assets of the Federal Reserve Bank of New York on February 20 were $1,100,000,000, not much below the maximum for this bank reached early in January when the Treasury required special accommodation. In addition to the loans outstanding on February 20, however, should be considered $48,100,000 of paper which this bank had rediscounted with other Federal Reserve Banks and carried as a contingent liability. The aggregate, $1,148,100,000, is the largest volume of loans thus far for this bank. The withdrawal from the banks of Government deposits, until they are now at a minimum, accounts to a considerable degree for the increase in loans.



The gold reserves of the Federal Reserve Bank of New York declined from $572,000,000 on January 16 to $527,000,000 on February 20. This reduction, which has progressed with fair consistency since midsummer, reflects not only the losses of gold to the interior of the country but the very material withdrawals for export. Since January 16 gold has been withdrawn from this bank for export, chiefly to South America, in the amount of $47,121,000, and $10,000,000 has been received from Canada. The net loss of $37,121,000 accounts largely for the decline of $45,000,000 in gold reserves since a month ago. In the same period the loss of gold in the entire system, including New York, has been $74,000,000.

After the rapid fall in this bank's Federal Reserve note circulation which took place after the holidays, the usual seasonal rise began, but at a somewhat accentuated pace. Since January 15, when the circulation stood at the low point thus far in 1920, Federal Reserve notes in circulation have increased $62,000,000, until on February 20 they amounted to $817,400,000, only $10,000,000 below the high point for 1919. Aside from the practically universal employment of labor at high wages, the current price scales and other fundamental factors which produce a demand for currency, at least $10,000,000 of Federal Reserve notes of this district have been sent to Cuba, where United States currency is legal tender, for use in moving the sugar crop.

The effect of these movements has been reflected in the reserve percentage of this bank, which fell from 41.4 on January 16 to 37.1 on February 20 and in that of the system as a whole which declined in the same period from 45.1 to 42.7, the lowest point yet reached. The accompanying diagram depicts the continued rise in discounts made and acceptances held, and the early increase in gold reserve and their subsequent decline.

Bank clearings in New York City for January were $23,209,000,000 or close to the high figure for December. From January, 1919, the increase was about 28 per cent. and the same increase was shown in clearings outside New York. The totals for each week of the current period were as follows:

(000 Omitted)

Week Ending	New York City	Six Cities Outside New York City	Total Entire District
January 21	$5,412,377	$151,143	$5,563,520
January 28	4,616,856	137,658	4,754,514
February 4	5,427,761	151,951	5,579,712
February 11	4,918,894	172,130	5,091,024
February 18	4,075,180	133,471	4,208,651

Money Rates

The conditions which prevailed in the money market during the preceding month were continued into the period just past with increasing acuteness. High rates for call and time money, and the inability of bill dealers and commercial paper distributing houses to attract any wide demand despite advanced offering rates, were in sharp contrast with the state of things normally existent at this season. Government withdrawals from the banks in unusually large amounts were accompanied by fluctuations in call money quotations ranging as high as 25 per cent. with renewals for a considerable part of the period quoted between 10 and 17 per cent. The redemption of a maturing issue of certificates of indebtedness early in February afforded no apparent relief to the money market. Time loans continued practically unobtainable, though borrowers bid 9½ and 10 per cent. for money on industrial collateral. Latterly, the situation has become easier, largely as a result of the liquidation which has occurred in the stock market, and call loans were made and renewed at 6 per cent.; but time money continues scarce with rates nominally at 8½ and 9 per cent.

Commercial paper rates have continued on the upward trend, and prime names are offered at 6½ and 6¾ per cent., with a small proportion of sales reported at 7 per cent. New York banks continue practically out of the market, and the scattered distribution outside has been insufficient to absorb the volume of paper which is being offered to the dealers. The bill market at this center continues inactive, and sales out of town are only in limited amounts. Dealers early in the period advanced their rates to 5½ to 5¾ for prime member bills, while the minimum purchase rates of the Federal Reserve Bank ruled from 5¼ to 5½ per cent.

The Stock Market

Heavy liquidation has been in progress on the stock exchange, and many large declines have been recorded. The decline in stock prices which had proceeded in an orderly manner since the beginning of the year in a market characterized generally by professional operations was rapidly accelerated during the past thirty days, and stocks at times were pressed upon the market in a manner apparently regardless of price. The increased tension in the money situation, and conditions bordering upon demoralization in the foreign exchanges, were in part responsible for the decline; and in addition to domestic selling there were evidences of a considerable volume of liquidation for foreign account, which appeared particularly among the better class of rail stocks. Average of daily sales for a considerable time well exceeded the million mark. Recently, the market has displayed a steadier tone. Some of the more speculative issues have shown losses from the high point of last November, running to 40 per cent. or more. A representative list of 20 industrials declined from 119 on November 3 to 79 on February 5, an average of 34 per cent. Rails have held at about the record low levels established in December, although there was a spasmodic recovery in the last week. Railroad issues average about 10 points (or 12½ per cent.) below a year ago, while industrials are still about the same degree above February of 1919. Falling prices were attended by decreasing sales, the total of January transactions on the New York Stock Exchange reaching 19,600,000 shares. This was a decline of 4,600,000 shares as compared with the above trading of December but 8,000,000 shares above January of 1919.

The Bond Market

The general level of bond prices has further declined since the report in January and the average of 40 listed issues reached the lowest level on record on February 13, being 7.82 points below the average at the beginning of 1919. Sales from January 1 to date aggregate approximately $578,000,000, which is about 28 per cent. greater than during the corresponding period of 1919, but sales have not been as heavy as during December.

Liberty bonds were under heavy pressure during the last week in January and the first week in February, when the money market was experiencing the greatest strain of the year and foreign exchanges had developed extreme weakness. After reaching their lowest price level during the first week in February, a decline of about 2½ points since the first of January, Libertys have held somewhat firmer, in sympathy with easier money and firmer foreign exchanges, while other bonds have continued to decline.

At the close of January, State and municipal bonds were selling at practically the lowest prices reached at any time during the war period. Sales of such securities during January amounted to $68,000,000 as against $81,000,000 in December.

Increased activity in the selling of foreign securities is reported, both with respect to American securities formerly held abroad, and issues of foreign governments, municipalities and corporations.

New French and Belgian Issues Both the French and Belgian Governments are offering in this market through banking houses acting as agents, their new internal 5 per cent. premium loans. These bonds present unusual features in Governmental securities. They are redeemable in semi-annual drawings at 150 per cent., *i.e.*, 750 francs for each 500 franc bond. At the current rate of exchange these securities offer an extremely high rate of interest to purchasers in this country, still further to be increased, in variable amounts, by the periodical redemption at a 50 per cent. premium over the nominal amount of the bond.

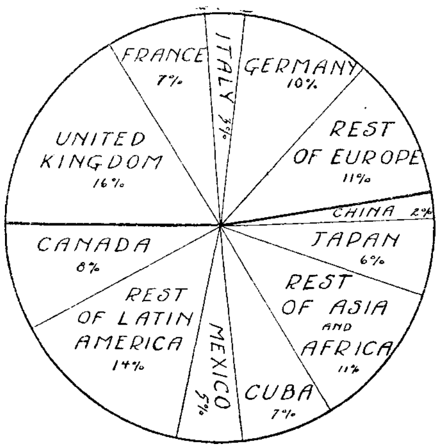
Foreign Exchange The first week of the period showed the most complete demoralization of the exchange market known in this generation. Sterling fell to a record figure of 3.18, French francs went to 15.15, and Italian lire to 19.72. There was later a considerable recovery, especially in sterling, which rose on February 13th to $3.43, a total gain of 25 points. There was likewise a reversal in the movement of Japanese exchanges which have in general been favorable to that country, but have this month fallen below the point of normal parity. There was concurrently a further fall in Canadian exchange; our dollar rose to a premium of as high as 17½ per cent. The drift of the principal rates is shown in the following table:

FOREIGN EXCHANGE RATES

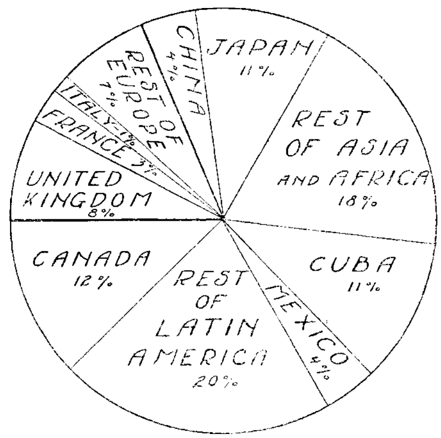
Week Ending	JANUARY 24		JANUARY 31		FEBRUARY 7		FEBRUARY 14	
	High	Low	High	Low	High	Low	High	Low
England	3.68½	3.59½	3.60¼	3.49¼	3.49¼	3.18	3.43	3.35¼
France	11.60	12.10	13.32	13.42	13.44	15.15	13.92	14.55
Italy	13.72	14.19	14.68	15.67	16.08	19.72	17.62	18.77
Spain	18.95	18.55	18.70	18.25	17.95	17.00	17.60	17.45
Argentina	43.25	43.12½	43.25	43.12½	43.12½	43.00	43.25	43.12½
Hong Kong	97.50	94.50	99.00	94.50	99.50	97.00	106.25	102.00
China (Shanghai)	160.00	158.00	163.00	156.00	163.00	161.00	167.00	159.00
Japan	49.75	49.75	49.75	48.00	48.75	48.00	48.62½	48.25

The Gold Premium and Depreciated Currencies In the main the fall in European exchanges, which has, of course, been general, and not confined to relations with the United States, represents largely an endeavor to adjust our currency and that of other nations to the inflated and correspondingly depreciated currencies of Europe. This is revealed by the rise in the gold premium in London step by step with the fall in sterling. There normally exists between all countries which have extended trade with each other, a certain balance between the price level, the state of currency and the rate of exchange. Thus, for example, in Great Britain, prices since the war began have risen at least one-third more than in the United States, which roughly corresponds to the fall in exchange and the amount of the prevailing gold premium. In terms of gold then, the general price balance between the two countries remains in about the same correspondence as before. Moreover, the actual quantity of American products seriously affected by present exchange rates is relatively small. So far as the great proportion of our exports is concerned, they must be taken at the prices obtainable, forcing a corresponding price in the depreciated currencies of Europe. There is a prevalent idea that the post-war needs of Europe have enormously increased our exports to that continent, and that it is this which has created the present disturbing situation. This has little justification in fact On the whole, with Germany, Austria and Russia out of the market, the proportion of our exports to Europe has not sensibly changed. It was 60 per cent. in 1913. It was 63 per cent. last year. That of England, France and Italy has somewhat augmented, but even here the gain is relatively small. These relations are clearly brought out in the diagrams on the next page.

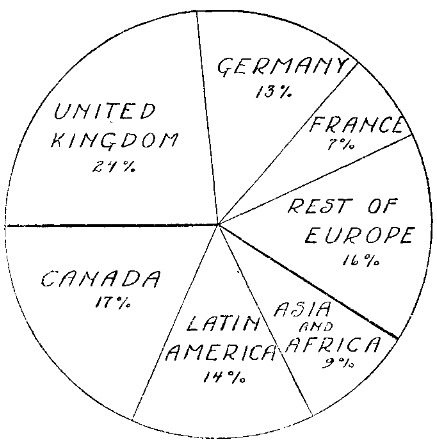
England's Trade Much has been said as to the highly unfavorable state of England's trade and balances. Yet a review of her exports for the year shows an unbroken rise, month by month, to record figures; and a corresponding decrease in her adverse balances. For 1919 this balance was 669 millions sterling; but a large part of imports was for restocking, now apparently well advanced. January's figures showed a marked improvement. Exports were a hundred per cent. over either 1918 or 1917, and at the rate of six billions of our money for the year; while, even with heavy cotton takings, imports were up less than 50 per cent. over those years. Such a gain, continued, would soon give Great Britain an export balance in her favor, a thing she has not had in long years. To this is to be added the estimated half billion sterling of so-called "invisible exports," shipping charges and interest; which very considerably exceeds the interest on her foreign borrowings.



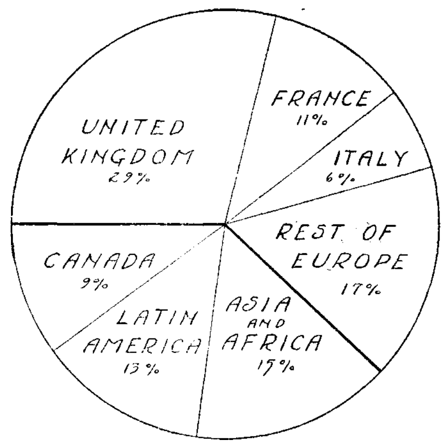
Our Import Dollar, 1914



Our Import Dollar, 1919



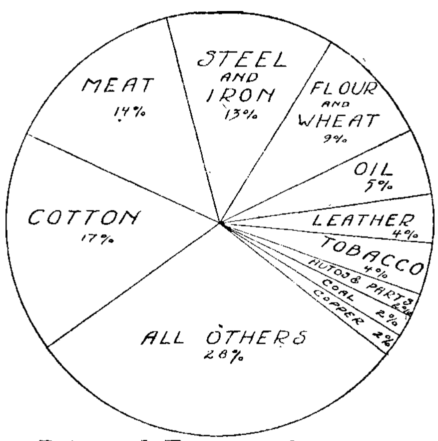
Our Export Dollar, 1914



Our Export Dollar, 1919

Canadian Trade

Our financial and economic relations with Canada have reached a point meriting serious attention. Canadian exchange has fallen to a discount of 15 per cent. or more, which, with Canada's price level about the same as our own, is equivalent to a corresponding tariff on American goods. Canada was, before the war, next to England, our largest single customer. Our trade there is still larger than the whole of our trade with Asia, and half again as great as that with all South America. Canada has prospered almost as much from the war as this country. In spite of the decreased production of its farms its exports for the last three years have far exceeded its imports and reversed the unfavorable balance of former years.



Principal Exports of 1919 in Percentages

Foreign Trade

The continued and unprecedented fall in exchange has brought renewed apprehension of a sharp contraction in our large volume of foreign trade, with a consequent disturbance of the general business of the country. It should be remembered, however, that, our foreign trade, even at the present large volume, has nothing like the importance which foreign trade possesses, for example, in a country like England. In the latter, in normal times foreign business probably exceeds a quarter of the entire trade of the nation. In this country it can hardly exceed 8 or 10 per cent.; most estimates are, indeed, considerably lower than this. Nor has the actual expansion during the war period been anything like as large as is popularly supposed. In physical volume it probably does not much exceed 40 per cent. for exports, and very little for imports; allowing for five years of normal trade growth, the present proportions measured in tons, bales and barrels, are less than one-quarter greater than before the war. In other words, if it was 7 or 8 per cent. then, it is not much over 10 per cent. now.

Moreover, our exports have been largely of indispensables, commodities in which this country has relatively small competition. Our principal export staple is still cotton and even here, although measured in dollars the amount is very large, the actual volume of shipments in the last twelve months has been below pre-war years. England's cotton industry seems remarkably prosperous, but Germany's textile mills, formerly our second largest buyers, are not yet functioning to any considerable extent. There has been an enormous expansion in our shipments of meat and other food products; and this has been larger in the last year than in any year of the war. This was obviously abnormal and represented a considerable stocking up of depleted supplies. On February 16 the meat packers' institute issued a bulletin stating that meat exports had practically ceased, that England has now large supplies on hand. The same was true of other neutral countries, and sales to Germany under existing conditions were not feasible. On the other hand, the expansion in our foreign shipments of iron and steel manufactures has been almost as great as that of the meat trade; and on latest reports this shows no signs of diminution; quite the reverse. Copper shipments remain remarkably low, and must inevitably expand with the revival of industry in Europe. Here, Germany was formerly our largest customer and it is now buying very little. Especially notable is the relative decline in our imports from Europe and the great expansion of those from South America and Asia with relatively little expansion in our exports to these countries. In other words, we have been selling heavily to Europe and buying from Europe relatively little. The reverse has been true of our trade to South America and to the Orient.

For the month of January, 1920, the summary figures of the Department of Commerce show imports amounting to $474,000,000, exceeded only in September and November of 1919. Exports for January amounted to $730,000,000, and these were greater in dollar value than in any previous month except June and November of 1919. In the opinion of exporters the February figures for exports will not reach any such total, the result of the disturbance in the foreign exchange market. The balance of current orders, particularly for luxuries, declined from 10 to 25 per cent.

Waning Speculation

Careful inquiry among merchants and the warehouses indicates that many of the large speculatively held merchandise stocks such as cotton goods, raw silks, leather and the like, which have been rumored or reported in recent months have to a considerable degree been liquidated. A possible exception is that of raw silk of which the volume in the warehouses much exceeds the normal. High money, falling exchanges, declining stock and grain markets, have all combined to induce a general conservatism; and there is a feeling that the headlong price advances of last year have carried values to an inflated level from which some reaction is inevitable. Consequently the disposition among cautious merchants has been to reduce stocks of goods on hand to amounts sufficient to cover near needs only, while on the selling side, greater discrimination is being exercised in the choice of customers and the acceptance of orders for future delivery. Reports from the West and South, however, indicate that this feeling is less prevalent in those sections than here.

Commodity Prices

New records in the price levels alike of this country and of England were established again for February 1. Dun's index number of wholesale commodity quotations reached 253.7, a rise of 15 per cent. over February of a year ago, while Bradstreet's number records an even larger advance, reaching 20.86, a gain of 18.3 per cent. Still more notable was the advance of prices in England where the Economist's index reached 7,768 at the end of January, a gain of about 33 per cent. over a year ago. This continued lifting of the price levels appears to be world wide in character. It has been as keenly felt in Asia or in Egypt as, for example, in the neutral countries immediately adjacent to the theatre of war. That it should still go on more than a year after the war, and indeed more than a year after demobilization had actively begun, obviously suggests that the immediate requisitions of the war, for men, materials and money were not the sole factors at work; and since the Armistice it is evident that one of the important influences in many countries has been the continued dilution of the money stock. This has been especially evident in countries like Germany, where the note increase has amounted to more than 50 per cent. in the last fifteen months. It has been less evident in countries like England, and still less in the United States.

Failures

Dun's statement of failures for this Federal Reserve District for January showed total liabilities of but $1,212,644 as compared with $3,258,200 for January, 1919. The number of failures reported declined from 134 to 103. For the country at large the January failures were not only below the low record of December but were the smallest of any January on record.

Cotton Market

In the earlier part of the month there was a pronounced recession from the high price levels which have been prevailing, followed by a marked recovery. Exports and mill takings continued in large volume, alike for January and for the six months ending January 31. Total exports expressed in bales were larger by half than in the corresponding months last year. Domestic mill consumption in January was the largest of any month since 1917 and the reported number of active spindles established a new high record. Exports are now approaching pre-war levels, even with Germany out of the market. But as ample stocks are reported from England, this high foreign demand may somewhat decrease. India's cotton crop this year is far above the average, and about 40 per cent. greater than last year. This increase compensates somewhat for the short crop in this country. The prevailing high prices for cotton goods have produced an excited speculation in cotton company shares in England and the demand for cotton making machinery from Belgium, Japan and other countries is heavy.

Iron and Steel

An unabated demand, alike domestic and foreign, is reported in the iron trades, with a corresponding tendency to even higher prices. Steel ingot production was reported as slightly under that of January a year ago, but the tendency is upward rather than downward, as is evidenced in the unfilled orders of the United States Steel Corporation. These increased more than a million tons in January, which, following a gain of 1,137,030 tons in December, gave a total increase beyond that of any two months' period. The total orders on the books on February 1 were the highest since the war peak of August, 1917. Although the mills are reported as running only at about 80 per cent. capacity, this is due chiefly to physical conditions. Bessemer pig is quoted as high as $43 per ton and steel billets at Pittsburgh at $53. Exports of iron and steel manufactures for 1919 exceeded a billion dollars.

Building Operations

Prospects for heavy building operations are shown in the reports of contemplated projects given by the F. W. Dodge Company, which for January totaled $112,209,100 for the district and over half a billion for the states north of the Ohio and east of the Missouri River. Actual contracts awarded in January totaled $79,570,000, which was many times that of any previous year, and according to the Dodge computations, equal to the sum of all January contracts since the beginning of the war. Contracts for the northeast section of the country totaled $235,000,000, which again was equal to much more than the preceding two years. Building permits in 131 cities, as reported to Bradstreet's, totaled $112,742,973, nearly five times that of a year ago, and nearly equal to the high level established in December. Industrial building continued to predominate, although the amounts for residential and business buildings were large.

Immigration

While a turn in the tide of European immigration is reported to be in prospect, no heavy increase as compared with a year ago has yet taken place. By far the larger part of the new arrivals are from Italy and reports from that country are that the prospective immigration from there this year will be heavy; but the applications for passports are being more carefully scrutinized than before and for the most part the arrivals represent a return of those who had gone back to their native countries during the war. The arrivals and departures by months follow:

Immigrant Aliens		Emigrant Aliens	
July	9,432	July	25,354
August	9,430	August	32,901
September	20,577	September	29,746
October	24,641	October	25,300
November	17,557		
December	34,529		
January	25,057		
Total	141,223	Total	113,301

Labor

Reports to the New York State Industrial Commission showed that the number of workers employed in the factories in January maintained the rate of the gain showed both by December and November. Notable changes over the preceding month were, however, few. The steel plants reported further increase in the number of men employed; there was a 37 per cent. increase in the number of piano workers, due to the waning of a strike. The only notable decrease was 14 per cent. in the number employed in the production of beverages from December to January.

This report is prepared monthly for the Federal Reserve Board. Copies are issued for the information of member banks and those who have contributed toward its preparation. Additional copies may be obtained by addressing

FEDERAL RESERVE AGENT,

Federal Reserve Bank of New York.

15 Nassau Street, New York.