Report on Business Conditions

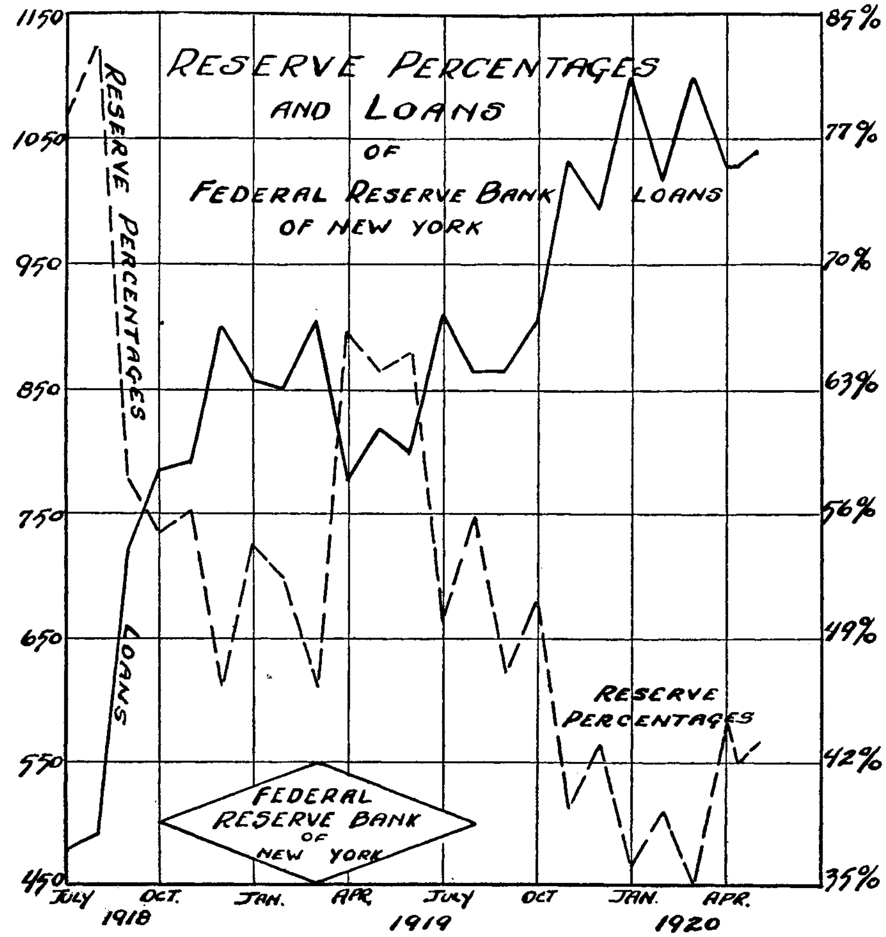
Second Federal Reserve District

From the Federal Reserve Agent at New York

to the Federal Reserve Board

New York, April 30, 1920

The Credit Situation A review of the first four months of 1920 indicates very little progress towards a reduction of either commodity prices or credit volume. The best that can be said is that the rate of increase in both has been slowed down. The usual credit liquidation of January and February did not occur this year, and while during February the steadily rising indices of commodity prices halted, or even showed signs of declining, they have resumed their upward course during March and April, accompanied by increasing bank loans, in spite of a decreasing volume both of the Government debt and of Government securities owned or carried by the banks. This condition finds its reflection in the Federal Reserve System, the reserves of which were 43.7 per cent on January 2 and 43 per cent on April 23. A year ago the reserves were 52.7 per cent.



NECESSITY OF IMPROVING CONDITIONS

In spite, then, of the substantial increase in rates for both short and long credit which followed the January increase in Federal Reserve Bank rates, no general improvement in either price or credit expansion has since been effected. When we realize that in another few weeks southern harvests will begin and that in another four months we shall be in the autumn period, when trade and crop moving demand an increased volume of credit, it is important that both bankers and business men should carefully study the situation at once, calmly but frankly, to see what can and should be done to prepare for these demands and to effect, in the meantime, not only a prevention of further credit and price inflation, but a measureable reduction of both.

Before considering what bankers can do to bring this about, it seems desirable that conditions in goods and labor, the physical elements of the situation, should be briefly examined in order that the difficulties of effective action through credit may not be underestimated.

GOODS

Generally speaking there is no improvement in the supply of goods measured by the demand; the upward movement of the price index shows this. Compared with pre-war standards, the production of most goods has not increased materially, whereas the desire and the ability to consume goods have increased greatly. This is due in large part to the

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increased margin over bare living costs which war conditions brought to so many of our workers, industrial and agricultural, and which in varying degrees they still retain. Our domestic demand for goods is augmented by an insistent demand from Europe, whose industrial disorganization has been made still more difficult by the elimination, for the time being, of Russia, Germany and Austria, as international producers and distributors.

LABOR

These demands from domestic and foreign consumers press upon our productive capacity at a time when it is at a relatively low point, due:

(1) To a transportation service, by land and water, which strikes and physical depreciation have reduced far below its normal efficiency.

(2) To the present inefficiency of labor; partly a result of world-wide restlessness following the war and partly a result of higher wages, actual and relative, which have noticeably lessened the incentive to work.

(3) To an almost complete cessation of immigration, our net gain since July, 1914, being about 550,000, while normally we should have gained 3,500,000.

Under present demands, labor inefficiency and labor shortage are the outstanding physical elements in maintaining our expanded position. If the present supply of workers would work hard and steadily we could largely augment our output of necessities for foreign and domestic consumption. If a great tide of immigration should again set in a powerful stimulus would be given to better labor efficiency. If manufacturers and merchants could install such labor saving machinery or effect such better organization of their shops and stores as would reduce the number of workers, they would make a real contribution towards the solution of our difficulties.

Two notable documents dealing with the situation have been made public since the last Report was published: the Declaration of the Supreme Council of the Peace Conference on The Economic Conditions of the World, dated March 8, and the report of the Chamber of Commerce of the State of New York on Inflation and High Prices, dated April 2. Both, while suggesting remedies, recognize the difficulty of dealing with a situation in which production and consumption are out of balance, the former speaks of "the gap which must for some years exist between the demand for and the supply of essential commodities." The latter, after referring to the various remedies to be undertaken, says "As long as hundreds of millions live in voluntary or enforced idleness the world's shortage in goods, with its concomitant rising prices, cannot be broken. Each of these processes is an essential step toward recovery. For the present, however, the world must tighten its belt if there is to be enough for all. That belt is a stricter control of credit."

CREDIT

Many factors have contributed towards the lack of balance between production and consumption and the price and credit expansion from which, in common with all the world, we are now suffering, and many different steps must consequently be taken to bring our unbalanced economic life back to an equilibrium. Whatever these necessary steps may be and by whatever other groups, governmental or private, they may be undertaken, it is evident that the Federal Reserve Banks and each one of the 30,000 banks of the country have a special duty and responsibility towards present conditions that they cannot neglect. This duty, as the Chamber of Commerce points out, is "a stricter control of credit."

THE BANKER'S RESPONSIBILITY

The bankers as a group are the most potent single influence in the industrial life of the country. They carry on their work with substantial uniformity in every city and town, touching every business activity. Relying on the resources of the Federal Reserve Banks they patriotically undertook the immense credit expansion which war financing required. In so doing they set in motion forces which are still continuing to aggravate the lack of balance between supply and demand and which must now be brought under control. The existence of the Federal Reserve System does not relieve a single banker, whether member or non-member, from his individual responsibility to do his share in checking further expansion by exercising a stricter control of the credit he creates; for except in its limited open market purchases of bankers acceptances the Federal Reserve System does not act directly on the volume of credit but acts only indirectly, through the banks, on whom the primary responsibility rests.

WHAT CAN THE BANKER DO?

What can the banker do among his own customers to exercise "a stricter control of credit?" It is

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difficult to generalize, for each bank and each of its borrowers must be considered individually, while each borrower is apt to be convinced that his case differs from that of others and is wholly meritorious. The following suggestions seem sufficiently general to cover many cases:

Clearly, the present is not an appropriate time to extend business merely for the sake of increased volume or profits. This applies not only to producers and distributors, but to bankers as well, for the present opportunities to take on new borrowing accounts and to re-loan borrowed money at a profit, are tempting to many. Nor is it a time for public or private improvements not absolutely necessary for health and efficiency. With a shortage of goods and labor, the necessity of conserving both is as great as it was during the war, and requires an even higher degree of self restraint on the part of bankers, producers, distributors and consumers, since Governmental controls no longer exist. Accordingly the more clearly the banker keeps in mind the conservation of labor and goods for necessary purposes as the object of his control the more clear will be his course in exercising such control.

Making new loans for purposes which will not further production or distribution of necessary goods creates fresh demands on labor at a time when there is not enough labor to meet pressing needs. Reduction of existing loans for similar purposes tends to reduce demands on labor. Loans for the purpose of speculating in commodities, securities and real estate, absorb credit required for necessary production and tend to increase the cost of living. Loans for the purpose of carrying stocks of luxuries and expensive grades of goods or stimulating their production merely increase the temptation to extravagant living; while loans to individuals to purchase such articles seem wholly indefensible.

However much present demands may seem to justify extensions or developments, any producer or distributor seeking additional credit for such purposes should be urged to make every effort to use his present plant and equipment to its utmost capacity, and by installing labor-saving devices, or by night work, if practicable, to get larger production without extensions. His attention should be called to the thousands of idle factories and the millions of idle workers in Europe, to the certainty that after a period their idleness will cease, and to the reduction of demands for American goods which will follow such a resumption abroad. If extensions are judged necessary, they should be financed as far as practicable, through conservation of profits. The necessity for saving is as incumbent on business as on the individual.

From the point of view of the safety of his institution the banker will naturally become more careful in granting credit to customers whose capital has not been increased proportionately with the increased liabilities of the present day, and who are not setting aside ample reserves against depreciation.

The payment of debts is a direct means of strengthening credit and lessening the demand for labor and goods. It cannot be too often observed that though a dollar will buy only 50 cents worth of goods, it will still pay 100 cents of debt. In 1896, debtors complained that they had to pay in a dollar whose buying power was greater than when the debt was contracted. The reverse is now true. It is the debtor's opportunity, and bankers may well make the most of it with their borrowers, and urge them for their own advantage to get along with as little borrowed money as possible.

The desirability of saving by paying debts leads directly to the larger and all important question of saving to reduce our present excessive and extravagant consumption, which is such a large element in causing the under-production of necessities. The bankers, by example, by influence, and by offering every inducement and facility to their communities for systematic saving, can do much to foster more sensible spending, towards which there are indications that the public mind is becoming more favorably inclined.

During April and May many of the dollar-a-week plans of purchasing Victory notes will be completed. This will suggest to bankers and employers the importance of inaugurating new partial payment plans for purchasing Government securities at the present low prices, in order that the weekly amounts which have thus far been systematically saved may not now be as regularly spent.

GRADUAL DEFLATION THE OBJECTIVE

The foregoing suggestions are very general and merely rehearse familiar things, yet they will bear repetition at a time when it is the bankers who are primarily called upon to deal with a situation which is not only country-wide but world-wide; by far the most difficult economic situation the modern world has ever faced. The new turn up-

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ward in credit and prices, after the halt of February, is an unmistakable sign to every banker, whether or not his institution is itself a borrower, that the necessity is here for him to take a more firm and determined stand to prevent further expansion and to inaugurate a gradual and orderly reduction of credit. A difficult programme, it is clear, and one requiring even more discretion, courage and public spirit than the bankers manifested so notably during the war; a programme which requires the cooperation of producers, distributors and consumers for its success; but a programme which, nevertheless, is essential not only to our steady industrial progress but to our entire social and economic well-being, and failure to undertake it is almost certain to lead to abrupt and unhappy consequences.

The Recent Loan Expansion In spite of the universal pressure for bank credit the banks of this district and of the country report comparatively slight changes in the volume of loans from a month ago. The reduction in the loan accounts of New York City banks which continued with a reasonable measure of steadiness from last fall to the early part of March, and the increase in bank loans elsewhere in the country which was practically continuous through the same period, have both been arrested. Through a long term of years prior to the war the average of April loan accounts of New York Clearing House Banks showed a slight falling off from March figures. This decline has not occurred in the current month in the loans of the banks, but it has its reflection, nevertheless, in the loans of the Federal Reserve Bank of New York, which has reversed its position as a borrower from other Federal Reserve Banks, and is now a lender to them.

But for the country at large there has been, within the last 12 months, an extraordinary increase in the bank loans of the country, at a rate far above any for which we have reliable figures in our banking history.

The best comparative index of our banking conditions is the reports of the national banks. In the last 30 years the average yearly growth of their loans has been 6.4 per cent., and for all banks, including national banks, 7.0 per cent.

The highest rate of growth in a pre-war year, was 15.2 per cent., in 1899. In the first three years of the war, the yearly rate of increase was as follows:

From 1914 to 1915 3.5 per cent.
" 1915 to 1916 15.3 per cent.
" 1916 to 1917 14.8 per cent.

In the 19 months when we were at war, the expansion of national bank loans was 16 per cent. In the same 19 months, commodity prices, Bureau of Labor index, increased 20 per cent.

From the call March 5, last year, to February 28 this year, national bank loans expanded by $2,303,000,000 or 24 per cent. This was two and one half times the rate of growth during our participation in the war, with all the tremendous Government loan issues and nearly four times the average yearly rate of the last 30 years, including the four war years. As the national bank loans are about 45 per cent. of the total loans of all banks, this means an expansion for the entire country of about $5,200,000,000, a sum that might well have been considered incredible if it had been predicted a year ago.

In corroboration of this figure, it may be noted that from April 9 of last year to April 9 of this year the loans of the 800 reporting banks of the Federal Reserve System also increased 24 per cent., while the loans of the twelve Federal Reserve Banks increased 22 per cent.

In the same period, from March of last year to March of this year, commodity prices rose 26 per cent. Such a rise in the price level has never been known in this country in peace times, and was exceeded during only one war year, that is, in 1916.

This rise was in the face of the fact that in the calendar year of 1919 the Federal Reserve Board's indices show a decline in the actual, or physical, volume of trade, as compared with 1918, of 11 per cent.; and a decline in the index of production of 25 basic commodities, prepared by this bank, of about 4 per cent.

This enormous loan expansion was very unevenly divided as between New York City and the rest of the country. For the 800 reporting banks, the comparison stood as follows:

	New York City	Rest of Country
May 9, 1919	4,146,000,000	7,296,000,000
April 9, 1920	4,781,000,000	9,445,700,000
Increase	16%	29.5%

The expansion of the Federal Reserve Banks in the same period was as follows:

	New York City	Rest of Country
May 9, 1919	806,000,000	1,344,000,000
April 9, 1920	932,000,000	1,896,000,000
Increase	15.6%	41.1%

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It will thus be seen that the part taken by this Federal Reserve District in the year's loan expansion was small as compared with that of the rest of the country.

The aggregate figures for reporting member banks, comparable with others previously published in this report, are as follows:

LOANS AND DEPOSITS

(In Millions)

	73 Reporting Banks in New York City*		811 Reporting Banks All Districts	
	Total Loans and Investments	Total Deposits	Total Loans and Investments	Total Deposits
April 16	5,456	5,209		
April 9	5,340	5,084	15,834	14,276
April 2	5,365	5,150	15,811	14,306
March 26	5,312	4,969	15,793	14,133
March 19	5,288	5,018	15,831	14,312
October 10, 1919	5,850 (highest)	5,397	15,476	13,699
April 18, 1919	5,292	4,872	14,346	12,554

*The number of reporting banks throughout the country increased from 757 on January 3, 1919, to 811 on April 9, 1920. In the same time the reporting banks in this district increased from 65 to 72.

The gold reserves of the Federal Reserve Bank of New York on April 16 were $549,353,000 as compared with $477,378,000 on March 19. Its circulation of Federal Reserve notes has been reduced slightly from $837,700,000 March 19 to $835,738,000 on April 16. In the early part of April, however, the circulation rose to the highest point ever reached, $850,182,000 on April 5, an incident to active Easter trade and travel.

The bank clearings were as follows:

(000 OMITTED)

Week Ending	New York City	Six Cities Outside New York City	Entire District
March 24	4,897,299	143,103	5,040,402
March 31	5,060,233	136,376	5,196,609
April 7	4,370,408	164,578	4,534,986
April 14	4,885,191	151,160	5,036,351

The Gold Movements To April 20 the total of gold imports from England since March 20 totaled about $51,050,000. This sum reduced the net exports of gold from this country since January 1 to about $64,000,000, and the net exports since June 10 of last year, when the export movement began, to about $390,000,000, This left the net amount of imports since August 1. 1914, at about $715,000,000. Further exports of about $17,000,000 to Argentina are reported as impending.

Money Rates Money rates continue high, refleeting a heavy and general demand for credit which has shown no sign of slackening. Borrowers, both corporate and individual, however, accepted the current high cost of money, as is indicated by the large offerings of high-yield standard securities during the past month and the broader market for commercial paper and acceptances. Government disbursements considerably in excess of collections in this district were instrumental in keeping stock exchange loan rates somewhat below the average of recent months, and call money renewals during the first three weeks eased from 9 to 6 per cent. But the narrow margin of the money supply was indicated by the sharp advance in rates which accompanied moderate withdrawals of Government deposits from the banks or any unusual stock market activity. On such occasions, 10 to 15 per cent. was quoted for new loans, and in the final week of the period the renewal rate rose to 10 per cent. Gold importations, partly offset by exports, have had no apparent effect upon money rates. Time money, both in volume of loans and rates, remained practically unchanged through most of the period; but a temporary easing of the market early in April resulted in the contraction of a few loans at 8 per cent. on mixed collateral and 8½ per cent. on all industrial. Rates have since returned to the basis of a month ago, namely, 8 to 9 per cent.

Demand for bills, which has slowly broadened since the rate rose to 6 per cent., became very brisk in the first weeks of April, depleting dealers' portfolios. Though savings and country banks were still the principal buyers, purchases by individuals, corporations, and insurance companies were reported

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as increasing, and a foreign bank entered the market for a considerable amount of bills. For the first time in this country, a genuine acceptance market appeared to be developing. Prime New York paper shaded to 5⅞ per cent., but demand fell off sharply at this rate and though dealers are again offering at 6 per cent., distribution has been somewhat slow in regaining its former volume. The minimum buying rate of the Federal Reserve Bank continued at 5½ to 5¾ per cent. for endorsed bills. Commercial paper, though less active than bills, moved in moderate volume, largely to the smaller banks in agricultural districts. Practically all dealings were at 7 per cent., with occasional sales at 6¾ and 7¼ per cent., according to names and maturities. The offering rate on French Treasury bills in this market was raised from 6 to 6½ per cent. during the current period, but British Treasury bills continued on a 6 per cent. basis.

The Stock Market

Industrial stocks, on the average, have continued the rise which started last month, but railroad shares have declined. Though there is continual evidence of steady accumulation by the small investor, speculative manipulation was more than usually prominent during the current thirty days and accounted for the greater part of the market's intense activity on several occasions. Attention at times centered almost exclusively in a small group of high-priced industrial issues, which fluctuated in a manner greatly out of proportion with the rest of the list. The market generally has been particularly sensitive to variations in the money supply. Periods of scarcity and high rates were accompanied by irregularity in stock prices and a reduced volume of sales. Easier money furnished the basis for renewed activity at advancing prices, until the upbidding movement was in turn checked by hardening rates due partly to the market's own absorption of the small supporting volume of credit. At the close of the period the industrial crisis in Japan, together with other unsettling influences, softened the market, and a sharp recession developed.

While many of the so-called standard industrial stocks are at practically the same level as on March 20, the wide gains of a few specially affected classes raised the average price 6 points to 130, which is approximately 9 points below the peak of the rise culminating last November. An average of 25 railroad stocks, which rose approximately 10 points during February and March, has again turned downward, losing close to 3½ points in the last four weeks. There have been indications of further selling of foreign-held American securities, which probably accounts in part for recessions among the high-grade railroad stocks. March trading was on a heavy scale, totaling 28,700,000 shares, a figure for this month only twice exceeded in the history of the market. Sales were approximately 6,000,000 in excess of the February total, and larger than any previous month since November, when the total was 30,000,000.

Bond Market and New Financing

Responsive to the continued pressure for money, and the large volume of new financing at high yields, the general level of bond prices has declined continuously during the past thirty days. The loss was greater than the rise noted a month ago. The average of 40 listed issues declined approximately 2½ points to a new low level reached on April 16, which was 1 point below that of the second week in February. This average is more than 4 points below the high level for the year, in the second week in January. While all classes of bonds have been under pressure, rails were the heaviest of the various groups, due in part to new financing prospects, and in part to uncertainty as to how the Interstate Commerce Commission will administer the new powers vested in it by the Railway Bill.

Prices of Liberty bonds moved upward until the first week in April, when, following the announcement of higher rates for new issues of standard corporation notes and Government certificates, and in common with other bond prices, they declined rather abruptly under heavy liquidating sales. New low levels were reached by all issues, and on April 19 the average was approximately 2 points below the level on March 20, and more than 4½ points lower than at the first of the year. This decline in Liberty bonds has excited some apprehension and feeling, but it is to be noted that the decline in these has been practically the same as the general decline in bond prices, and both are simply the reflection of the continued high rates for money and the very heavy pressure for credits.

Bond sales for March totaled $306,209,000, which is a record for that month and slightly above the sales for February. Of this amount, Liberty issues aggregated $219,405,000 against $227,194,000 the previous month. Sales of Japanese Government bonds were nearly double those of the previous month, and trading in French, British, and Canadian city and Government loans was slightly greater in

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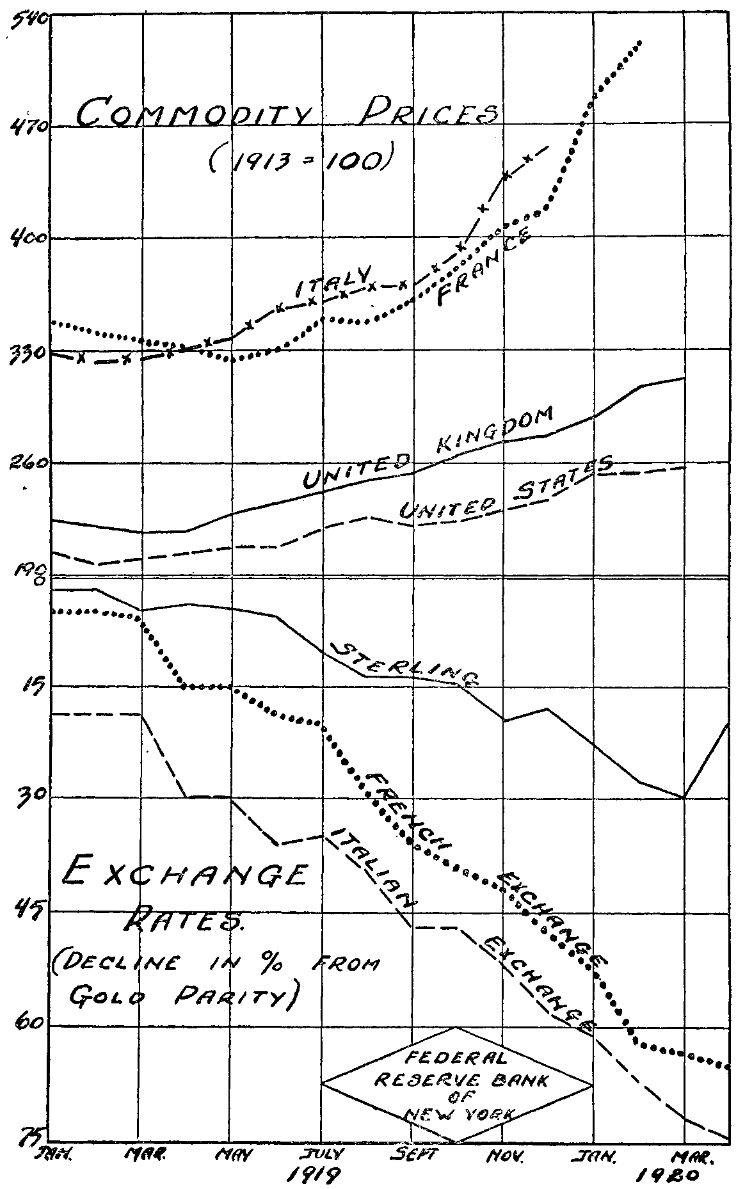
volume than during February. Sales of domestic corporation bonds were only $56,502,000, or 18 per cent. of the total. Trading thus far in April has been in slightly heavier volume, amounting to $75,216,850 for the week ended April 10, and $90,080,000 for the week ended April 17.

New corporate financing during March aggregated $275,771,000, as compared with $202,528,000 for February and the high record of $391,000,000 in October. Railroad issues amounted to $44,191,000, or 16 per cent. of the total, and it is estimated that 30 per cent. of the new issues were used to pay off maturing obligations. For the first quarter of the year, new capital issues were 40 per cent. greater than in the first quarter of 1919. According to estimates, April maturities will aggregate $30,000,000 against $59,000,000 in March.

In April there has been an increase in the volume of new securities offered, amounting to $139,000,000 during the week ended April 10, and $75,471,000 during the week ended April 17. A large percentage of the former amount was rails. Unusual interest has been manifested in the high rates offered by the new issues, which were quickly taken. Rates were around 7 per cent. for high-grade securities, and this has been reflected in the general recessions of bond prices.

Foreign Exchange The most notable event in the exchanges of the last four weeks has been the further and heavy fall in French and Italian exchange, while sterling has stood firm. This was the result, it appears, of heavy selling of French and Italian bills in London, where the market was seriously congested. But back of this immediate cause was the larger fact that France and Italy have not been able as yet to put their financial houses in order. Governmental expenditures continue at an enormous rate. The French budget for the current year is far beyond any war-year expenditure, resulting in further deficits and compelling heavy expansion of the note issue. Exports from both France and Italy have been steadily increasing but are still below pre-war levels and still leave a large adverse balance. The result has been a further depreciation in the purchasing power of their currencies, as is shown by the continued rise in the price levels. The commodity index of France rose from 332 in April, 1919, to 520 in February, 1920, and in Italy the rise was from 330 in April, 1919, to 455 in December. In other words, the purchasing power of the mark and lire in the wholesale markets fell considerably more than one-third in one year. This is almost as great as anything that took place in the war, and vividly reveals the great demoralization in the currency situation of these countries. A corresponding fall in exchange was inevitable. Nevertheless, this decline is greater than the relative currency depreciation in these countries. With our wholesale price index at 250, it now requires the equivalent of $500 and $600 in French and Italian money respectively to purchase $250 worth of American goods. This would correspond to a depreciation of about 60 per cent.,



measured in gold, whereas the exchange rate fell to around 70 per cent.

Rates during the current period were as follows:

FOREIGN EXCHANGE RATES

WEEK ENDED	MARCH 27		APRIL 3		APRIL 10		APRIL 17	
	High	Low	High	Low	High	Low	High	Low
England	3.96	3.75	3.97¼	3.84¼	4.06¾	3.96¼	3.97¼	3.92¼
France	13.98	14.91	14.40	15.06	14.37	16.24	15.86	17.15
Italy	19.42	20.72	20.17	20.56	20.52	25.00	22.10	26.63
Spain	17.75	17.25	17.60	17.35	17.95	17.75	17.60	17.40
Argentina	43.375	43.18	43.15	43.15	43.20	43.18	43.18	43.125
China (Hong Kong)	99.00	95.00	99.00	98.00	100.50	96.50	94.00	93.00
China (Shanghai)	146.00	139.00	146.00	146.00	147.50	137.50	130.50	128.00
Japan	47.00	47.00	48.00	47.00	48.50	47.50	48.75	48.75

March Exports

Total exports for March reached the record-breaking figure of 820 millions, by far the largest for this month ever recorded, and only exceeded by the extraordinary figures of last June. This carries the total exports for the first quarter of the year to 2188 millions. This was above even the high level established in the three months of November, December and January last. It will be seen that our export trade has thus far quite failed to realize the dire predictions that were so freely offered last year, as the supposed consequences of the fall in exchange.

Imports were also at a record-breaking figure, goods free from duty totaling 326 millions and dutiable goods 198 millions, or a total of 524 millions. Even when this is reduced to the price level of 1913-14, it still remains, in volume, the heaviest imports of any month recorded.

England's Trade

England's foreign trade continues to show a steady expansion, even with the heavy increase in prices eliminated. For the first quarter of the present year, exports were 112 per cent. over the first quarter of last year, while imports in money values increased only 52 per cent. The average rise in commodity prices in the same period was 36 per cent., so that imports have not increased enormously while exports have shown a remarkable gain. Nevertheless, the adverse balance remains very heavy. It was £200,000,000 in the first quarter of 1919, and £218,000,000 this year, which latter, however, would correspond, at the same level of prices as last year, to only about £150,000,000. The situation, however, shows a steady amelioration, month by month, and should so continue, as English exports in actual volume are still apparently below the level of 1913. Allowing for 7 years of normal industrial expansion, which was not interrupted through the war to anything like the degree that popular imagination pictured it, British production is still far below the normal line. That this should be true nearly a year and a half after hostilities had ceased is evidence of the demoralization wrought by existing conditions.

English Bank Rate

The increase of the Bank of England discount rate to 7 per cent. brings it to the highest point since the early months of the war, and with this exception to the highest point since the panic of 1907. In November of that year, when this country drew heavily on England for gold, the rate was increased to 7 per cent. and remained there until the early part of January, 1908. Except for those two instances the English rate has not reached the present level since our panic of 1873, when the rate rose to 9 per cent. It is remarkable that throughout all the troubles following the Baring crash, and culminating in our panic of 1893, the English rate did not rise above 6 per cent. These facts taken in connection with the rise in the French bank rate referred to below, sufficiently disclose the present world-wide demand for money.

Conditions in France

The increase of the Bank of France discount rate to 6 per cent. raises this rate to the highest level it has reached since 1873. In that year a rate of 7 per cent. was maintained for 12 days, and a 6 per cent. rate for 32 days. Prior to the disturbances due to the Franco-Prussian War the rate reached 8 per cent. in 1864, in the troubles preceding the English crash in 1866; but in this panic the French bank rate went no higher than 5 per cent. A rate exceeding 6 per cent. was general in the panic year of 1857, when the figure reached 9 per cent. Throughout the present war the highest rate was 5½ per cent.

The present increase is apparently in line with the announcement made in the Annual Report of

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the Bank of France, recently issued, of a definite agreement with the Government that a limit of 27 milliards of francs has been set upon the bank's advances to the Government, and that this is to be reduced to 24 milliards by current loans. This has been accepted to mean that France has finally declared its intention to stop further inflation, with the attendant disastrous rise in prices. Since the outbreak of the war the note circulation has grown from under 6 billions to above 38 billion francs, over six times. Even since the armistice it has increased more than one-third. The result has been a violent advance in prices, which has been especially severe, in the last few months and is now 50 per cent. over one year ago. The price index for March 1 was 520, and heavy increases were reported in the current month. This means that the purchasing power of the franc is now less than one-fifth what it was in 1914.

In spite of the remarkable industrial recovery that France has made since the armistice, its production, like that of most countries, is still below normal. Coal production per capita, for example, by French miners is estimated to have declined from 2156 pounds daily in 1913 to 1760 pounds in 1919. Though the adverse balance of trade continues to be heavy, the actual volume of imports has been declining, while exports for January and February were, in money value, 185 per cent. over those of a year ago, which implies an increase of nearly one-half in actual volume.

The Japanese Crisis

A serious financial crisis appears to have developed in Japan, resulting in a violent fall in stocks and in commodity prices. The most serious decline appears to have been in silk, which is reported to have fallen from the high point of around $2500 a bale to about $1800 per bale. The high point of silk in New York, reached in February, was recorded at slightly more than $18 per pound, though sales were reported as high as $23.50 per pound, and by April 20 the price had declined to $12.50 per pound. Several Japanese stock exchanges were closed and some large failures were reported. All this is the more remarkable because Japan's currency and financial position is apparently of the highest. There has been during the war the same remarkable expansion of the currency in Japan as in other commercial nations, amounting from July, 1914, to the close of last year to 280 per cent. But at the same time Japan absorbed large quantities of gold, and the holdings of the Bank of Japan rose from around 110 millions of dollars to about 477 millions last December 31, or an increase of 327 per cent. The present reserve of gold against notes in circulation was, therefore, in the neighborhood of 60 per cent. and the reserve against notes and deposits 35 per cent. On March 31 it was 38 per cent. The tremendous rise in prices in Japan which in February were 213 per cent. over 1913, and still higher in March, was, therefore, not paper inflation but precisely as in the United States, a gold expansion. The Bank of Japan has large gold deposits in the United States and in Great Britain, but its financial situation was so strong as not to occasion any large gold imports.

Retail Trade

Cool weather and unsettled conditions during April have curtailed retail buying, but in March activity was materially greater than in February. The increased March sales were due largely to the warm weather, which stimulated the sale of seasonable merchandise, and also to the pre-Easter sales of dry goods and clothing. Department stores in this district report that the value of their sales during March averaged 54 per cent. greater than for the corresponding month last year. The value of retail stocks averages considerably more than 50 per cent. greater than for March, 1919, and has increased an average of 15 per cent. over February, 1920. While there were slight declines in some food prices during March these were offset by advances in other lines. During April unsettled conditions, particularly the strike of railway employees, sent some food prices up again, especially those for fresh vegetables and meats. The unsatisfactory outlook for this year's crop has forced up the prices on cotton goods. Although no marked wholesale price recessions have occurred, retailers delay making commitments far ahead in the hope that they may enjoy the benefit of possible declines. Customers appear to be making their purchases with a closer scrutiny of values, and retailers, notably in the shoe and clothing trades, show a disposition to resist any advances in the prices charged them.

Commodity Prices

The upward movement of prices arrested in March, continued in April, as is shown on the accompanying chart. The index of 12 basic commodities maintained by this bank, from standard price quotations, rose from 104.6 on March 1 to 107.0 on April 1, and on April 15 stood at 109.9. Of the 12 items, cotton, wheat, corn, sugar, copper, pig iron, lumber and petroleum shared in the rise

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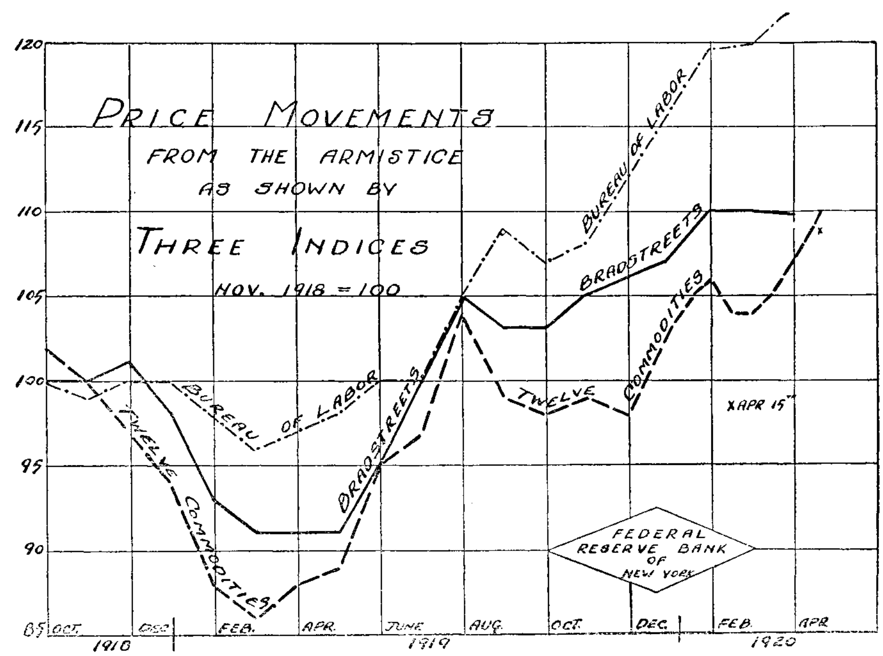
from March 1 to April 15, while hides and rubber declined slightly and hogs and lead remained the same. The further rise of this basic index through the month of April indicates that the peak of general prices has not yet been reached. For March, the Bureau of Labor Index rose from 249 to 253, and Dun's from 253 to 257.9, while Bradstreet's stood still. Bradstreet's food index rose from 4.84 on March 4 to 5.13 on April 15. English prices continued also to rise, the Economist index reaching the record figure of 8352, against 5708 in April of a year ago, an advance of 47 per cent. as compared, for example, with an increase of 26 per cent. in the Bureau of Labor index of this country, and of 21 per cent. in our 12 basic commodity index for the same period. The French official index number showed another remarkable rise for the month of February, and a continuation of this rise was indicated by the course of prices in March, though the figure is not yet available in this country. The same was true in Japan and Canada. It will thus be seen that the price level is still rising all over the world.



Iron and Metals

The strike of trainmen came just as the production of iron and steel was recovering rapidly from several adverse factors, and when the demand, especially for structural steel, was strong. The industry was so seriously affected by embargoes, which prevented the movement of materials and fuel, that many plants were forced to shut down. Transportation and production have now somewhat improved, but are still below the levels of March. According to the Iron Age, the aggregate output of pig iron in March exceeded 3,375,000 tons. The daily average production was about 6,000 tons greater than in February, and at the highest point since the end of 1918. Reliable data for companies which manufactured more than 80 per cent. of the steel ingots produced in the United States in 1918, show an increase of 431,675 gross tons in March over February. The pig iron market is dull, but prices are firm. Steel prices advanced during the month, both here and in London. Bessemer billets are quoted at $65 to $70, open hearth at $70 to $75, and sheet bars at $80 to $90 at Pittsburgh.

The export demand for finished steel is larger than the supply. South America and Japan are still buying in unusually large quantities, and shipbuilding activity in Great Britain is increasing her needs. Leading producers quote copper at 19½ cents for spot and second-quarter shipments, but inquiries are lacking. The sluggish American market has influenced London, where prices early in April had been somewhat firmer. Zinc, lead and tin markets are inactive on account of the strike. Prices, especially for lead, are somewhat lower than a month ago. The index figure for the metal group in Dun's list on April 1, was 30.72, as compared with 30.40 on March 1, and was at the highest point since October 1, 1917.

Cotton

Persistent reports of labor shortage, seed shortage, bad weather and damage done by the pink boll-worm, have sent the prices of cotton to new high levels during the first half of April. Spot cotton this month went above 43 cents. Cotton consumption during March amounted to 575,704 bales as compared with 516,594 bales in February and 433,485 in March last year. The domestic mill consumption from August 1 to April 1 was 4,236,000 bales against 3,817,000 for the corresponding period last year. Cotton on hand with consumers on March 31, increased about 395,000 bales over last year, while cotton in public warehouses and at compresses decreased 1,082,910 bales. Imports during March were 133,727 bales compared with 15,561 bales a year ago. Exports were 794,460 bales during the same month compared with 504,239

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a year ago. Active spindles in March increased more than 2,000,000 over March, 1919. The reflection of high cotton prices on the wholesale prices of cotton goods is shown in an extract from a compilation made for the Daily News Record comparing recent values with the maximum prices fixed by the Government in 1918 and the quotations of December, 1914:

	Raw Cotton Price at N. Y.	Prices Dec. 1914	Max. Govt. Price 1918	Raw Cotton Price at N. Y.	Prices Jan. 22 1919	Raw Cotton Price at N. Y.	Prices Jan. 22 1920
Print cloths, 27 in. 64 x 60	$7.50 a bale	2 7/16	11 1/4	$25.60 a bale	8	$39.10 a bale	15 1/2
Shirtings, 3 yd. 48 x 48		5 1/4	20		16 3/4		29
Drills, 37 in. 3.95 yd.		4	17 1/2		15		25
Sateens, 37½ in. 64 x 72, 5.25		4 3/8	17		13		33
Combed lawns, 40 in. 84 x 80, 10.50		7 1/4	28		20		42 1/2

Building Operations

The value of contracts for building operations in this district, awarded during March, was nearly double the value of those awarded in February, according to figures compiled by the F. W. Dodge Company. Figures for the first quarter of 1920 show that the contracts awarded amounted to $182,568,000,—nearly equal to the total value of those awarded during the same quarter during the past four years, which was $193,396,000. Projects contemplated in March amounted to $86,406,350, which is a decrease of about $8,000,000 from the total reported for February. There was a considerable increase in the number of residential projects during March, both in this district and in the states north of the Ohio and east of the Missouri rivers. In the latter area contracts for all classes of building awarded from January 1 to March 1, 1920, amounted to $452,511,000, and from January 1, to April 1, 1920, to $780,408,000, which was nearly three times the value of contracts awarded during the same quarter last year.

The unfavorable situation, which has been aggravated by the recent strikes of men in transportation service, holds forth little hope for marked improvement in the near future. The increasing and active interest of large corporations in the proper housing of their employees, together with the formation of local building associations, is, however, an encouraging recent development. A strike of bricklayers in New York City which had been in progress since January was settled when the men agreed to return to work on March 30, pending the arbitration of their demands.

Failures

A sharp rise in the number and amount of commercial failures in this Federal Reserve district in March, as compared to a month ago and a year ago, is shown in statistics compiled by R. G. Dun & Company. The number of failures reported, increased 64 over February, 1920, and 37 over March last year, while liabilities increased $5,150,906 and $2,180,220 respectively. For the first time in several months failures in this district increased over last year. This is a marked contrast to figures for the country as a whole, which show a decrease. Business mortality in this district for the first quarter of 1919 and 1920 is shown in the following table:

	NUMBER		LIABILITIES	
	1920	1919	1920	1919
January	103	134	$1,212,644	$3,258,200
February	75	102	1,062,322	2,686,546
March	139	102	6,213,228	4,033,008
Total	317	338	$8,488,194	$9,977,754

Immigration

Prior to the war the races which immigrated to the United States in the greatest numbers were, in the order of their importance, Italian, Hebrew, Polish, German, Scandinavian, English and Irish, who, make up more than two thirds of the 15,000,000 immigrants who came to this country since 1898. Most of our immigrants now are Italians, in great part reservists who are returning from service in the Italian army, with some Scandinavians, Irish, and English. Hebrew and Polish immigration has been curtailed by conditions in Russia and Poland, and by our strict passport regulations. German immigration is cut off by our war-time regulations, still in force. Other causes restricting immigration are the recent political and social revolutions abroad, which have offered advantages to the poorer classes and have given political autonomy to many races. Canada, with other British Colonies, and South America, are offering special inducements to immigrants and thus attracting some of them away from this country. Great Britain is seeking to direct emigrants to her colonies. Italy has recently investigated conditions in the countries where her emigrants settle, and has decided that France offers the best advantages. Naturally, her future policy

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will be to seek to send her emigrants to that country, although numbers of them are now going to South America. Prohibition in this country and the high cost of ocean transportation, due to depreciated foreign exchange, are also said to be causes curtailing immigration.

Arrivals and departures during the past six months were as follows:

	Immigrant Aliens	Emigrant Aliens
October	24,641	25,300
November	17,557	36,459
December	34,529	21,996
January	25,057	25,051
February	22,086	24,379
March	29,098	18,714
	152,968	151,899

Employment During the first two weeks of April, the strike of railroad employees so disorganized transportation that many firms were compelled to limit their activities, with a consequent increase in unemployment. Of 445 reports from factories, in answer to a query by the State Industrial Commission of New York, 152 say production was curtailed by the strike, 199 that production was not affected, and 94 voice no opinion. In the 152 factories affected, the number of employees decreased from 28,922, on March 15, to 27,821 on April 15; in the 94 factories voicing no opinion, it decreased from 14,181 to 13,378, while in the 199 factories not affected it increased from 28,300 to 28,700. There is evidence that the crest of the trouble has been past, but the resulting accumulation of goods and materials at production points and terminals will delay the return to normal conditions. However, this congestion of yards and warehouses will temporarily increase the demand for certain classes of labor. A 3 per cent. increase in the amount of employment in New York factories in March over February is shown in the preliminary report of the State Industrial Commission. This increase was partly seasonal and partly due to an improvement in the deliveries of fuel and raw materials to factories, which enabled them at that time to increase their working forces. Data compiled by the Commission show an average weekly earning in March of $27.87 far all factory workers in New York, an increase of 5 per cent. over February, 1920, of 26 per cent. over March last year, and of 120 per cent. since March, 1915. Several minor strikes have recently been settled in this district, notably a strike of bricklayers, in progress since January, and a strike of food handlers, which lasted only a day. Strikes of elevator operators and coastwise longshoremen show signs of breaking up, but a strike of machinists is in prospect The public attitude toward strikes, because of the inconvenience and loss resulting from them, is in this district as elsewhere one of increasing irritation. During the strike of railroad workers many volunteers manned trains, thereby making it possible for the railroads to move trains into New York.

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