Report on Business Conditions

Second Federal Reserve District

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

New York, June 30, 1920.

The Credit Situation

Since the last issue of this report the Federal Reserve Bank of New York announced a further advance in discount rates, effective June 1. The rate on commercial paper was raised from 6 to 7 per cent., with corresponding increases in other rates. The purpose of the advance, it was stated in the announcement, was "in order that bankers, their customers and the public generally may find in the discount rates of this bank a reflection of existing credit conditions."

Credit conditions, which are analyzed in this report each month, were fully discussed in the report of April 30. The outstanding facts are that during the twelve months ended February 28, 1920, in spite of a decrease of $256,450,000 in the gold holdings of the country, bank loans, according to the best available estimate, expanded $5,200,000,000 or 24 per cent., and prices expanded 26 per cent. From May, 1919, to May, 1920, this expansion resulted in the following increases in the cost of credit:

New security issues, from 6½ and 7 per cent. to 7 and 8 per cent.

Commercial paper, from 5½ per cent, to 7½ per cent.

Government bond basis, from 4.65 per cent., to 5.45 per cent.

Government short certificates, from 4½ per cent. to 5½ per cent.

It may be interesting to compare rates on commercial paper in the open market with the discount rates of the Federal Reserve Bank of New York. When discount rates were first increased last November (no change being made in the commercial paper rate) the discount rate on commercial paper was 4¾ per cent., while the open market rate was 5½ per cent. On January 23, when the discount rate on commercial paper was raised to 6 per cent., the outside rate was already 6 per cent. On June 1, when the discount rate on commercial paper was raised to 7 per cent., the open market rate was about 7½ per cent.

The result of the higher Federal Reserve Bank rates, as far as we can learn, has been to impress borrowers with the necessity of borrowing as little as possible, and of presenting a sound case when applying for credit. The increasing number of sales, not only of manufactured goods but of raw materials, during the past month, is clearly indicative of the desire to reduce stocks of goods which are being carried. Producers and distributors find that necessary credit is available, but there is greater discouragement of borrowing for less necessary purposes. Rates on commercial paper in the open market have risen during the month ½ per cent. to 8 per cent., and the banks in some of the smaller industrial cities at which rates have not been raised are finding an increasing pressure upon them for loans at their lower rates.

Unquestionably, the most interesting transaction under the new conditions was the Government financing of June 15 when the Treasury Department offered $400,000,000 of 5¾ and 6 per cent. certificates of indebtedness which were readily taken. In all $419,000,000 of these certificates were allotted. The proceeds of these certificates, together with the taxes due June 15, provided the means of liquidating $1,000,000,000 of certificates maturing from June 15 to July 15, therefore effecting, temporarily at least, a reduction of nearly $600,000,000 in the public debt. Between now and September 15 when the next tax instalment is paid, doubtless some increase in the debt will occur, but the Secretary of the Treasury has indicated that a considerable net reduction during the three months is anticipated. Further figures submitted by the Secretary indicated a decrease in the public debt between August 31 and May 31 of $1,600,000,000 which the operations of June 15 increased, temporarily at least, to $2,200,000,000.

Both issues were well taken, with the 6 per cent. offering somewhat more heavily subscribed, and their distribution to the public appeared to be particularly good. In the various discussions of financial matters which have occurred during the past month, statements frequently made indicated a general belief that the $3,000,000,000 certificates outstanding were largely, if not principally, lodged in the banks. This is quite the reverse of the fact. Studies of banking reports have indicated that during the past six months 75 per cent. of the outstanding certificates were held, not by the banks, but by the public, and that of the balance, a considerable portion was held for investment, like any other short paper, by banks not borrowing of the Federal Reserve System.

Another recent and notable development in government financing was the freer and larger dealing in Treasury certificates of indebtedness in the open market. During the last two months large transactions have occurred, particularly in the shorter maturities, and at rates approximating $5\frac{1}{2}$—$5\frac{3}{4}$ per cent. as against the rates of 6 —$6\frac{1}{2}$ per cent. which prevailed during April and May. The greater activity has brought about a greater demand.

The steady reduction of the government debt, and of the government securities held directly and indirectly by banks, has not brought about the improvement in our credit position which was anticipated some months ago when it was hoped that the reduction of these primary instruments of inflation would reduce correspondingly the credit volume. The reverse has been true. Not only has the volume of credit not been reduced correspondingly, but commercial and other requirements have necessitated additional credit to the extent of double the amount of government obligations canceled.

Consumption still continues at a high rate, and in this connection the following resolution passed by the American Federation of Labor at its annual convention at Montreal this month is of interest as denoting the desire of labor leaders to assist by stimulating savings:

"RESOLVED, that this convention in view of the current low market prices of Liberty Bonds and Victory Notes advises all International and Federal Unions as well as State Federations of Labor and central bodies to urge their respective memberships to purchase government securities at current market prices either for cash or on the instalment plan and to hold their bonds until maturity, and be it further

"RESOLVED, That the members of the various unions be requested to urge their employers and local banks to provide partial payment facilities for the purchase of government securities at market prices."

While it is desirable to widen the distribution of government bonds by this method, of far more importance at the present time is the collateral advantage to the whole credit and price situation of reducing consumption by the amounts thus saved.

Bankers on Credit Conservation

The New Jersey Bankers Association at its convention in May adopted a resolution authorizing its president to appoint a special committee of five or more members to assist in the conservation of credit. The action of the convention and the appointment of the committee with Judge Gardner of Jersey City as Chairman are important steps in the present credit situation. The resolution was as follows:

"As a result of the war the United States, in common with nearly every other country, finds itself with a highly expanded volume of credit, with prices more than double their pre-war level, and with a supply of labor and of most materials wholly inadequate to supply the demand of the immense and widely diffused buying power at present prevailing.

"The bankers of New Jersey believe it essential that further expansion of credit and prices should be checked and that a reduction of both should be gradually effected; and recognizing their responsibility to assist in this process by exercising a stricter control of the credit they create, they therefore

"RESOLVE, that the President be authorized to appoint a special committee of not less than five members to assist and coordinate the efforts of the bankers of New Jersey:

"1. In conserving credit and thereby labor and materials for the production and distribution of those goods for which there is the most pressing need.

"2. In effecting the postponement of public and private improvements, extensions and expenditures not now urgently needed.

"3. In stimulating the accumulation of savings as the most effective method of combating present extravagant and unnecessary expenditures.

"4. In such other plans as they may develop to bring about a gradual reduction of credit and prices."

The New York State Bankers Association at its convention on June 17-19 also authorized the president of the association to appoint a committee for similar purposes.

Volume of Bank Loans On June 11 the amount of loans of the banks, both in New York City and elsewhere in the country which report each week to the Federal Reserve Board, was practically the same as on May 21, although during this period there had been a slight rise followed by a corresponding decline. The fluctuations were somewhat greater in New York City than in the balance of the country. The deposits of the New York City banks fell 23 millions during these three weeks, while those of the balance of the country increased 55 millions. It is of interest to note that both the loans and deposits of the balance of the country stood on June 11 about midway between the high and the low points of the year, whereas those of New York City in both cases had fallen considerably below the halfway point.

On June 15 occurred the financial transactions incident to the quarterly payment of taxes and to the refunding or liquidation of one-fourth of the Treasury's floating indebtedness, and as a consequence the reports of the banks as of June 18 reflect substantial changes. The loans of New York City banks increased 85 millions, and their deposits 102 millions. The allotted subscriptions of the New York City banks to the current offering of certificates of indebtedness equaled about 150 millions, of which approximately 130 millions were paid for by the opening of credits to the Government on the books of the banks, pending withdrawal as the needs of the Treasury dictate. Payment on June 18 of subscriptions to the Belgian loan was also reflected in the increase in total loans of New York City banks.

From May 21 to June 11 the loans of the Federal Reserve Bank of New York increased from 1,038 millions to 1,085 millions, although the rediscounting for other Federal Reserve Banks decreased 20 millions in the same period; but in the week ended June 18 the loans decreased 75 millions, part of which was accounted for by a further drop of 22 millions in rediscounting for other Federal Reserve Banks. The bulk of the decline, however, was attributable to temporary advances made by this bank to the Treasury, pending the handling and collection of income tax checks, and the transfer here of Treasury funds received in other Districts.

The table of loans and deposits follows, showing changes during recent weeks as contrasted with the high point in October and the point at which they stood a year ago:

LOANS AND DEPOSITS

(In Millions)

	Reporting Banks in New York City*		Reporting Banks All Districts*	
Date	Total Loans and Investments	Total Deposits	Total Loans and Investments	Total Deposits
June 18	$5,476	$5,193	$15,890	$14,465
June 11	5,391	5,091	15,863	14,318
June 4	5,416	5,094	15,857	14,256
May 28	5,435	5,171	15,885	14,280
May 21	5,389	5,114	15,857	14,262
October 10, 1919	5,850 (highest)	5,397	15,476	13,699
June 13, 1919	5,601	5,193	14,942	13,262

*Between June 13, 1919, and June 18, 1920, the number of reporting banks in this city increased from 72 to 73 and throughout the country from 771 to 814.

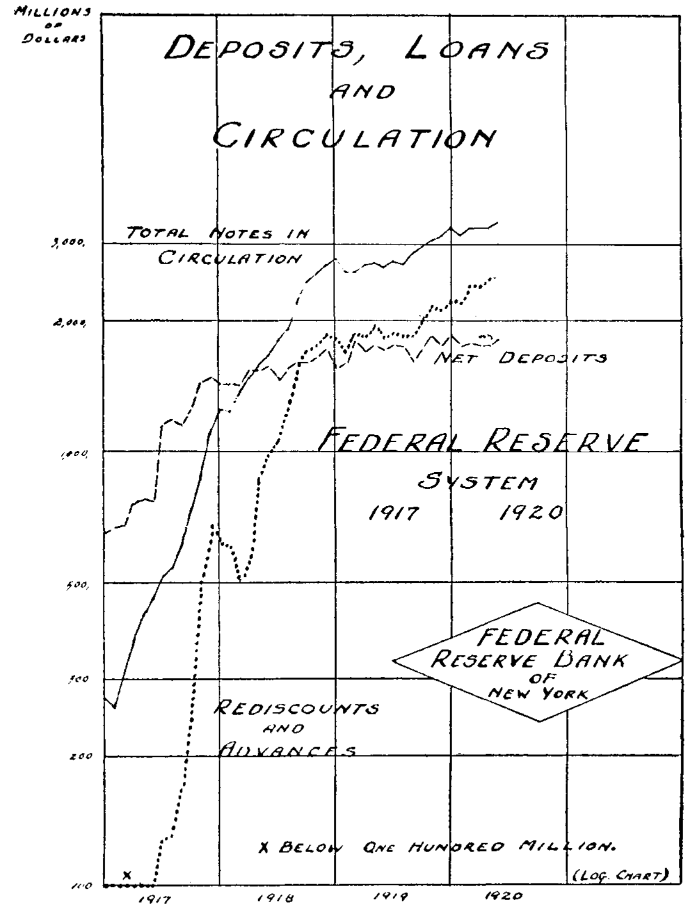
Money Rates Call money was plentiful at 6 to 7 per cent. through the latter part of May, due largely to the dullness of the stock market. In June large shifts of funds in the money market caused wider fluctuations in the call loan rate, which rose to 11 and 12 per cent. The regular first of the month payments, moderate withdrawals of Government deposits from the banks, and calling of loans here by interior banks in preparation for June 15 tax payments and for crop requirements were factors in these advances. Stringency was alleviated temporarily by redemptions in this district of $243,000,000 of certificates of indebtedness maturing June 15. Time money was slightly easier early in the period, but rates remained unchanged at 8 and 8½ per cent. according to collateral.

The ruling rate on commercial paper at the close of the period is 8 per cent., ½ per cent. higher than a month ago, though occasional sales still occur at 7¾ per cent., and some transactions are reported as high as 8½ per cent. This increase followed a temporary restriction in the demand which followed the increase of the Federal Reserve Bank discount rates. Distribution is still slow despite the higher rate, but dealers report a considerable broadening in demand in the country districts, to which business is almost entirely confined. Increasing costs of distribution caused some of the dealers to advance their commission charges to ½ of 1 per cent. The bill market was unsettled early in June by uncertainty as to the course of rates, but lately a considerable activity has developed. Rates have not changed from a basis of 6¼ per cent. for prime 90-day bills. Savings banks are again larger buyers. The longer maturities are favored, and dealers at times have had some difficulty in obtaining an adequate supply of bills of this character. The minimum buying rates of the Federal Reserve Bank continued at 5¾ to 6 per cent. for endorsed bills.

Gold Movement Imports of gold for the month ended June 10, were reported as $15,097,000. Additional imports, however, amounting to over $11,000,000 were received but had not been recorded up to that date. Of the total about $23,500,000 was shipped by the British Government from China. In the same period exports amounted to $6,757,000 of which $3,000,000 went to the Dutch East Indies and half as much to Japan. Net exports of gold from January 1 to June 10, as recorded were $94,131,000; or, including the additional imports noted above, $83,000,000.

Since May 1, Argentina has avoided exporting gold to this country by drawing against her deposits with the Federal Reserve Bank. Her importers have deposited with their Government gold that would otherwise have had to be shipped to settle indebtedness, and the Government has arranged for such settlements by drawing against her credit balance here to the extent of about $22,000,000. As far as the Federal Reserve Bank was concerned the transaction amounted simply to a transfer of credit on its books and no gold was withdrawn, inasmuch as the Argentine funds held by the Federal Reserve Bank have been in the form of a deposit credit and not of earmarked gold.

Note Circulation The increase in total note circulation of all Federal Reserve Banks from January 2 to June 18 was $31,000,000, or less than 1 per cent. during a period of nearly six months. This compares with an increase of 19 per cent. from July, 1919, to January, 1920, and a decrease 1.2 per cent. from January, 1919, to July, 1919. Total money in circulation in the United States increased from $5,960,000,000 in January to $6,102,000,000 in June, or 2.4 per cent. There has



been a fairly consistent increase in Federal Reserve notes in circulation since the first of January, but it has been largely offset by a decrease in Federal Reserve Bank notes. Federal Reserve notes increased from $2,999,000,000 to $3,104,000,000, but Federal Reserve Bank notes declined from $258,000,000 to $183,000,000. The circulation of Federal Reserve notes in this district on January 2 was $811,000,000, and on June 18, $854,000,000, an increase of $43,000,000. During this period there have been shipments to Cuba by six banks in New York of $42,000,000 in currency, chiefly Federal Reserve notes, and in addition scattering amounts have been shipped to Mexico, Porto Rico, the Virgin Isles, and Canada. From the chart inserted above, showing deposits, loans and note circulation of all Federal Reserve Banks, it may be seen that since the Armistice total note circulation has increased about 28 per cent. while rediscounts have risen nearly 47 per cent.

Foreign Exchange Exchanges on Far Eastern countries, where the demand for silver has declined, broke sharply during the second week of June. Chinese exchanges were reported demoralized for two or three days. These exchanges, like silver, have been on the decline for several weeks, and the decrease in China's exports has no doubt been a depressing factor. Shanghai taels, which were quoted around $1.65 at the first of this year, have now dropped to about $.98, as against approximately $1.15 on May 20. Indian rupees have dropped from approximately 46 cents to 39 cents since early in January.

The European exchanges on the whole have advanced since thirty days ago. Sterling at times has been strong, and has risen during the period from $3.80½ to $3.96⅞. The announcement of the British Chancellor of the Exchequer in the second week in June, that Great Britain had already provided for half of her share of the Anglo-French loan and that means for paying the remainder are in sight, had a strengthening influence which is still felt. Furthermore, the published reports of large gold shipments, particularly in the last few days, tended to advance sterling. The tendency of British exports to increase and of imports to decrease has been an important influence in improving her exchanges.

Due in part to speculative transactions, the Continental exchanges made pronounced advances during the last week of May, and francs and lire then touched the high point for the period. After receding somewhat, these exchanges continued irregular until the second week of June, when lire dropped sharply, owing to freer offerings of bills with diminished demand, and to current political conditions in Italy. There was a smaller decline in francs at the same time, but both francs and lire have since partially recovered. The hope that the approaching financial conference may provide some relief for the depreciated exchanges of France, Italy and Belgium, and furnish credits for the purchase of raw materials has had a strengthening effect upon their exchanges, both here and in London. Marks, after a rapid advance to 3.13, with heavy transactions, reacted to only slightly above the level of 30 days ago. The market, which is largely speculative, has been somewhat depressed by reports of internal trouble in Germany.

Rates during the current period were as follows:

FOREIGN EXCHANGE RATES

	MAY 22		MAY 29		JUNE 5		JUNE 12		JUNE 19		Percentage of depreciation from par to low for week of June 19
	High	Low	High	Low	High	Low	High	Low	High	Low	
England	3.86	3.80⅝	3.92¼	3.84	3.96	3.89½	3.94¾	3.88¾	3.98¾	3.93⅛	19.2
France	13.52	14.65	12.26	13.58	12.70	13.17	12.97	13.20	12.54	13.26	60.9
Italy	18.82	20.22	16.53	18.58	16.75	16.73	17.00	18.68	16.60	18.00	71.2
Spain	16.80	16.63	16.63	16.60	16.35	16.20	16.50	16.35	16.63	16.53	68.7
Argentine	42.70	42.53	42.55	42.50	42.40	42.35	42.45	42.37	42.20	42.10	.8
China (Hong Kong)	85.00	78.75	85.00	81.75	83.50	81.50	80.00	74.25	75.75	70.00	x
China (Shanghai)	119.00	110.50	119.00	113.50	123.00	123.00	110.00	96.25	100.00	91.00	x
Japan (Yokohama)	51.00	50.50	51.50	50.75	51.25	50.75	51.25	51.00	51.25	51.25	2.8*
Germany	2.48	2.08	3.01	2.48	2.63	2.25	2.62	2.48	2.60	2.44	89.8
Switzerland	5.65	5.70	5.60	5.65	5.47	5.56	5.52	5.55	5.51	5.25	1.3
Sweden (Stockholm)	21.00	20.60	21.50	20.90	21.55	21.45	21.70	21.50	21.80	21.55	19.6
Holland	36.375	36.3125	36.50	36.375	36.6875	36.4375	36.37	36.00	36.125	35.875	10.8
Belgium	13.02	13.76	12.15	13.17	12.22	12.48	12.42	12.65	12.10	12.50	58.6

*Premium
xSilver exchange basis.

Silver The precipitate decline in the price of silver has continued during the past thirty days and reached the low price of $0.80 an ounce on June 16. This decline began during the second week in January, when the price was $1.37 per ounce in this market, and is largely attributable to the fact that there is still a supply of silver in Europe, while the demand in India and China has greatly declined. These two countries were the principal markets for silver during the long period of its advance from below $0.50 in 1915 to the high point of $1.37½ last November. Apparently they have now reached a point near saturation and are buying only intermittently. In fact China has recently been a seller of silver.

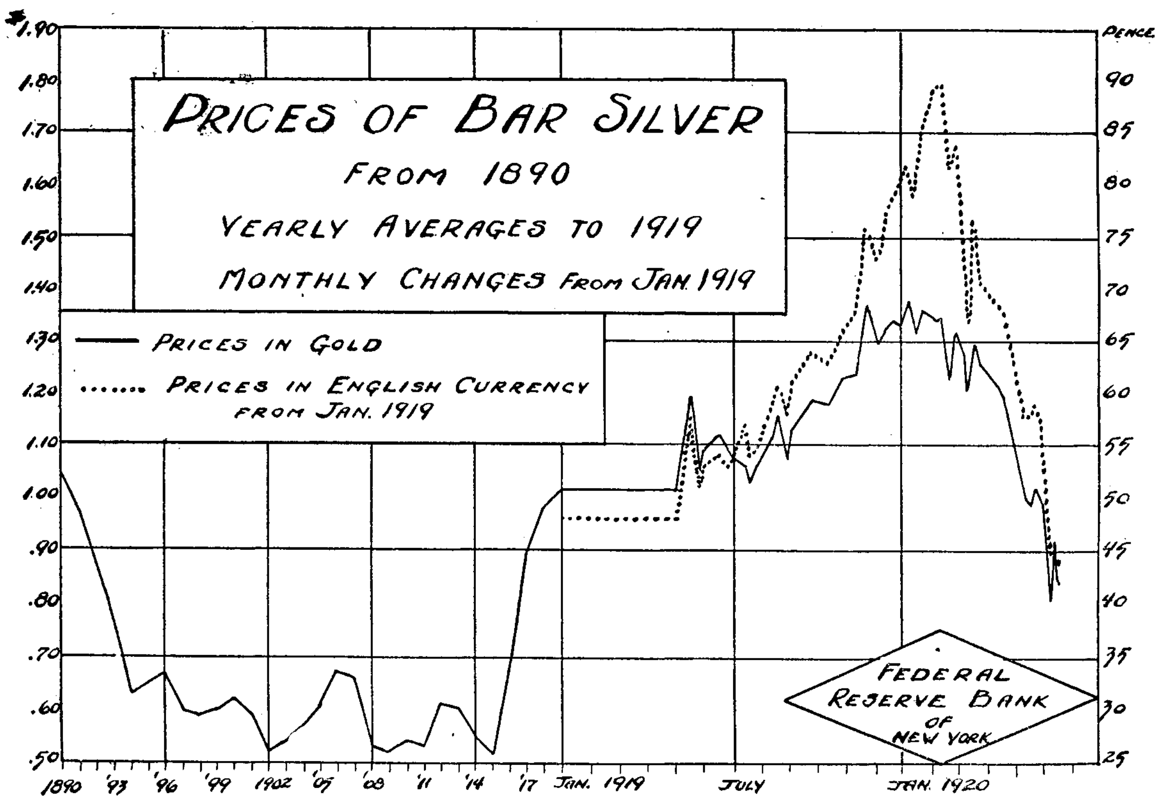
Exports from India have declined materially, which is no doubt the chief factor in the declining demand for silver. A decreasing amount of silver is being absorbed by the natives. Chinese exports, likewise, have declined and the country is well stocked with silver, which poured in in large quantities until within recent months.

On the other hand an additional source of supply has been tapped. The silver coins of the Continental countries of Europe are being melted and exported. These countries, which were importers of silver prior to the war, are now exporters to a very appreciable extent. Consequently the market in London declined and the American market has followed.

The general impression was held in foreign countries that when silver reached $1.00 an ounce the United States Government would take at that price the available supply in this country, and thereby stabilize the price at about that point. When it was found, therefore, that this Government was not buying large quantities, even after the price had dropped below $1.00, the price broke violently. The Pittman Act of April, 1918, in providing for the melting up of silver dollars for sale as bullion to be exported, also provided that for every dollar so disposed of the Director of the Mint should be required to buy, at $1.00 per fine ounce, an equivalent amount of bullion. On May 17 the Secretary of the Treasury ordered that silver be purchased, under the Act, to the aggregate amount of 207,000,000 ounces. Silver so purchased, however, under the terms of the Act, must be the product of mines and refineries situated in the United States. A large portion of domestic silver is smelted and refined in conjunction with foreign silver and comes from the refineries as a mixed product. Therefore, the policy of purchasing domestic silver only when it was without admixture of foreign silver, resulted in relatively small purchases. In view of this the Director of the Mint on June 18 announced that he would purchase the proportion of mixed silver coming from United States refineries, which represents the product of mines located within the United States.

The result of this announcement was immediate. The New York price for domestic silver at once rose to 99½ cents and remained there, because of the mint's fixed bid. The price of foreign silver, not having the benefit of the Government's bid, recovered only to 91½ cents up to the 19th.

The chart reproduced below, giving the movement of silver prices since 1890, shows the variation between New York prices and London prices since gold went to a premium in London.



Export Trade

May exports from the United States increased $54,000,000 over the April total, to $739,000,000. Normally, the trade figures for this period would show a decline in exports of about 6 per cent. Furthermore, May average prices were slightly more than 2 per cent. higher than April. Correcting for this seasonal variation, and for price expansion, this bank's export trade index is 107.4 for May, as compared with 95.1 for April, or a gain of about 13 per cent. The decline in imports which appeared in April was followed by a sharper drop in May. In nominal value, imports declined $64,000,000 to $431,000,000. This meant a decrease in the index from 129.0 to 115.4, or about 12 per cent. more than the normal.

A softening in the demand abroad for American products is now reported by most exporters. A lack of confidence in the present level of prices seems to be spreading throughout the world. The tendency is to sell rather than to buy. The Japanese crisis and the fall in silver are serious factors in the Far Eastern trade, and in other parts the general contracted state of credit seems to be forcing a slowing down in forward buying, particularly as traffic conditions both in this country and abroad are making deliveries extremely uncertain.

Cancellations of steel orders by Japanese buyers apparently are growing, though not all are accepted here. Some exporters have agreed to postpone deliveries until the fall upon the promise that materials will then be received. Certain large manufacturers of machinery and tools, with well organized agencies in Japan, are still taking orders for their lighter products, but buying of heavy machinery has fallen off. Japanese re-sales of steel in this market have so far been absorbed readily by other buyers. Cotton is still moving to Japan on old orders, but no new buying is expected for some months.

There has been some curtailment of Chinese buying and cancellations have appeared from that quarter. India, however, is still an active market, particularly for steel products, construction machinery, and automobile trucks. Certain exporters with connections in the East Indies have been advised that unfavorable conditions are developing there as a result of a sharp decline in Japanese buying.

The decline in the foreign demand for textiles is more severe than in other lines. Cancellations of cotton goods contracts are coming from the Levant, Syria and Egypt, where stocks are said to be heavy, and according to reports from abroad China is overstocked in British cotton manufactures. South American buyers have been reported recently as cancelling contracts for cottons and dry goods. Demand for raw cotton appears to be slackening, both in England and on the Continent. Falling off in the demand for near deliveries is attributed to some extent to the poor quality of old crop cotton now in the market, but buying of the new crop has also been lighter. Stocks in England are very heavy, amounting to over a million bales, as compared with about half that total a year ago and a quarter of that sum two years ago.

European buying of steel is more active than recently. England is buying ship plates and billets. French buying of finished materials is more general, and there is a stronger demand in Italy for semi-finished steel and iron. Certain steel exporters have found demand less urgent in South America, but they feel this to be due principally to the extreme difficulty of making shipments. Some agents are refusing to place further orders from South America unless the firms here can guarantee prompt delivery. Coal is in urgent demand abroad, particularly in Scandinavian countries and in Italy, but shipments are limited by inability to get sufficient supplies to tidewater.

Demand for foodstuffs, other than grains, is still light, and re-shipments to this country from Scandinavian countries have been reported. Stocks were accumulated there in anticipation of sales to Russia and Germany which have not materialized.

The copper export market is extremely dull. Credit arrangements have been concluded with France for shipments over a term of years at market prices on date of sale, but no actual transactions have been reported. England is buying copper, but is obtaining it elsewhere, partly from re-sales by Japanese buyers in the London market at prices below those quoted by the principal dealers here. There is said to be still a good market abroad for hardware. Leather export business is practically at a standstill.

Stock Market

The stock market has passed into a period of inactivity. Sales for the first three weeks of June totaled only 7,000,000 shares, less than the average for a single week in March, which was the high month this year. Prices appeared to drift aimlessly much of the time, though the general trend of industrials was higher. Dullness may have been partly seasonal, but the main reasons undoubtedly were shortage of money and caution on the part of buyers in view of political and economic uncertainty.

An average of twenty-five industrial stocks rose 10 points to 114, recovering about 40 per cent. of the decline which started in April. Railroad stocks, on the average, declined slightly. There were indications of further foreign selling of high grade railroad issues, and a dividend reduction by one of the important roads was an unsettling development.

Total stocks sales for May were 16,000,000, the lowest for that month since 1915, and a decrease of 12,000,000 shares as compared with April.

Bond Market and New Financing Bond prices during the past thirty days have been firmer than at any time in three months. An average of forty corporate issues advanced roughly 2 points to the highest level in nearly two months. Most of this rise occurred early in the period, and prices lately have moved with considerable irregularity, but declines have appeared to be due to factors apart from rates of yield. New high yield issues have not had the depressing effect upon low-interest bonds which was recently the case. Liberty bonds declined only slightly.

Railroad bonds led in the advance, but later showed some unsettlement which seemed to arise from the same factors that cause heaviness in railroad shares. Public utility bonds were quiet, while industrials, after early declines, gained slightly.

British Government bonds were strong under the lead of the Anglo-French 5s which reached a new high record at 99⅝. Switching by holders of this issue into the United Kingdom 5½s, due November, 1921, advanced the latter from around 94 to 97, at which the yield is about 8½ per cent. City of Paris 6s reached highest prices for the year. Japanese issues were relatively quiet.

Total sales during May aggregated $367,000,000, the heaviest total since January, and were $75,000,000 in excess of May, 1919. Transactions in Liberty bonds constituted over 80 per cent. of the total.

For the time being at least the tendency toward higher and higher yields on new issues has paused. Seven per cent. has been the rate for railroad notes, and 7½ to 8 per cent. on most industrial issues. Some of the larger cities recently have been forced to offer 6 per cent. interest to attract bids. On the whole, however, there has been little disposition to advance rates beyond the prevailing yields. The chief result lately of any weakening in the demand has been the withholding of new offerings until the market becomes more favorable.

New financing during May totaled $245,000,000. Though this was a decline of nearly 50 per cent. from the record month of April, it was well above the output for May in past years. Railroad issues comprised $69,000,000 of the total.

Foreign Bank Rates The official rate of the Bank of Italy was advanced from 5½ to 6 per cent. on May 13, and is the highest rate maintained since November, 1914. This follows an increase from 5 per cent. to 5½ per cent. on April 6.

The Bank of Bombay reduced its rate from 7 per cent. to 6 per cent. on June 18. The previous reduction was from 8 per cent. to 7 per cent. on June 1. The Bank of Calcutta has also reduced its rate from 7 per cent. to 6 per cent. The following are the present bank rates in financial centres:

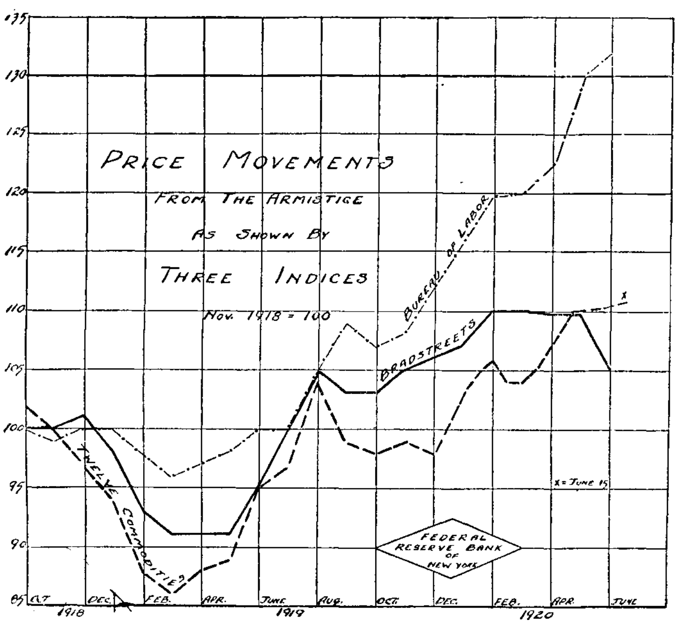
FOREIGN BANK RATES

	Rate	Changed
Bank of England	7	April 15, 1920
Bank of France	6	April 8, 1920
German Reichsbank	5	December 23, 1914
Bank of Italy	6	May 13, 1920
Bank of Japan	8	November 18, 1919

Commodity Prices There is partial evidence that the almost continuous rise in prices of the last 12 months, all over the world, has been checked. The index of 12 basic commodities prepared by this bank stood on June 21 at 110.3, as against 112.9 on May 17, the high record. Dun's index shows a slight decline from May 1 to June 1, while Bradstreet's index declined 4.1 per cent. during the same period. The principal articles showing a downward tendency in price are textiles, clothing, fruits, dairy products, and garden products. On the other hand, the Bureau of Labor averages for May registered an advance of 7 points to 272, in spite of all the reported price reductions. As is set forth in the accompanying diagram, the Bureau of Labor index for May was 10 per cent. above that in January, 1920, and 32 per cent. above that of the Armistice, 19 months ago. The principal advances during May were in food, fuels and lighting, while farm products, cloths and clothing and metals showed slight declines. Chemicals and housefurnishing goods also recorded substantial advances.

English prices in May showed small declines, according to both of the well known tables. This is the first decrease in the Statist index number since March, 1919, although the Economist index had declined slightly in April. Italian prices, which had risen so rapidly, turned downward in May, and Japanese prices continued the decline which began in April; the decline from March to May was 15 per cent. The following table gives the latest available figures of the various index numbers, together with the preceding figures and the percentage changes:

Indices	Latest Available	Preceding	Per Cent. Change	Highest
Bureau of Labor	272 (May Avg.)	265 (Apr. Avg.)	+ 2.64	272 (May Avg.)
This Bank's Index (12 basic commodities)	110.3 (June 21)	111.4 (June 14)	— .99	112.9 (May 17)
Dun's	262 (June 1)	263 (May 1)	— .38	.263 (May 1)
Bradstreet's	19.87 (June 1)	20.73 (May 1)	— 4.15	20.86 (Feb. 1)
Economist (British)	8199 (May 31)	8232 (April 30)	— .4	8352 (Mar. 31)
Statist (British)	306 (May)	313 (April)	— 2.2	313 (April)
French	584 (April)	554 (March)	+ 5.42	584 (April)
Italian	659 (May)	679 (April)	— 2.94	679 (April)
Japanese	272 (May)	300 (April)	— 9.33	321 (March)
Canadian	261 (April)	258 (March)	+ 1.16	261 (April)



Failures

Commercial failures continue at a very low level. There was a slight decrease in May in liabilities in this district as compared with those for April, 1920, and May, 1919, when also the record of failures was unusually light. The number of failures, however, were somewhat increased last month. The following figures are for the Second Federal Reserve District, taken from the Dun reports:

	Number of Failures		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
April	117	107	2,865,153	4,365,253
May	133	93	2,413,591	3,194,187
	567	538	$13,766,938	$17,537,194

Railroads and Transportation

Although labor troubles in New York harbor have caused the rerouting of a considerable volume of export freight, the traffic movement of the railroads in this district generally has been fully equal to the movement during the corresponding period of last year. The total loaded freight car movement of a leading railroad for the first 21 days of June was even 7 per cent. greater than the freight movement during the corresponding days of 1919. The resumption of the outlaw rail strike, near the end of the period, directly affected traffic in this district to only a very small degree, and that chiefly at Syracuse. It was felt by the roads here indirectly because of the freight embargoes in several of the interior junction points.

Noteworthy in consideration of the increased volume of freight being carried this year was the statement by two of the largest carriers of coal that movements of this class of freight are greatly in excess of last year. One road, in fact, during the first five months of 1920, has carried nearly 29 per cent. more bituminous coal than during the corresponding period of 1919. For the other road, according to figures available, 6 per cent. more coal was carried in the first three weeks of June than for the same period of last year. Although the railroad transportation systems of the district now appear to be operating at normal and even increasing their loaded car movement, the strike of freight handlers and truck drivers at the docks here has continued to cause very serious congestion. The organization of independent cooperative trucking concerns by the merchants handled over half a million tons of freight in the first two weeks of its operation, but the blockade has continued. Opposition to independent trucking, however, appears to be weakening and normal conditions are expected by the merchants within another two or three weeks.

Manufacturing There has been a decrease in some lines of manufacturing in this district during the past month. Lack of demand has restricted the output of the textile mills and clothing and boot and shoe manufacturers, and some smaller industries. But in most others production has been at a high level in spite of railroad congestion which has severely hampered many factories.

Many woolen mills and silk mills are shut down or running only part time, and some cotton mills are going ahead with greater caution. Boot and shoe dealers are feeling the dull leather market, and vice versa. Leather prices in many instances are nominal, as there has not been enough trading to establish a market. There is known to be an abundance of raw materials in storage and the supply of labor in these lines seems ample. There have been some reductions in quotations, but dealers are waiting for possible further declines and also to judge more accurately what their own needs are going to be. In the early part of June this dullness became increasingly evident, but there are some noteworthy exceptions. Automobile manufacturers, for instance, while feeling the lack of forward orders, had in some instances enough on hand to tide them over. Manufacturers of electrical supplies are enjoying a business that is far beyond last year's, but production has been restricted by labor troubles.

Cotton The same factors which caused the lowering of cotton prices during April continued during the past month. The falling off in exports and a slowing of the domestic demand for cotton goods were mainly responsible. Cancellations of orders for cotton goods have been numerous, but not as general as in silks and woolens. The Government report on June 2, of a crop condition of 62.4 per cent. as of May 25, which is 13.2 per cent. below last year and 16.3 per cent. below the ten-year average, had apparently been previously discounted and resulted in no sustained price advance. The recent decline in Liverpool prices was reflected in a sympathetic drop in cotton here. Closing prices in New York on May 15 and June 24 are shown in the following table:

	May 15	June 24
July	38.26	35.65
October	36.11	33.25
December	35.15	32.05
January	34.53	31.50
March	34.02	31.00
Spot	41.60	37.75

Wool Wool prices have declined very decidedly during the past month, although consumption in the United States since last October has been at the highest level ever known. For six months or more after the Armistice, consumption was at a low ebb. This left a surplus which was drawn upon during 1919-20. With new clips coming in, the supply was more than ample for the increased demand. When the London auction was held recently, this was reflected in small takings and much lower prices. Merino was 30 per cent. and cross breds 10 to 15 per cent. lower. In Boston many lots passed without any bids. Mills have received very heavy cancellations and are now curtailing production. The rapid change in conditions is shown in the following figures, compiled by the American Wool and Cotton Reporter:

Sales for Weeks Ended

	May 1		June 24	
Domestic	Pounds	Price	Pounds	Price
Territory	750,000	$0.45 @ $0.80	100,000	$0.30 @ $0.65
Pulled	500,000	1.00 @ 2.05	50,000	.75 @ 1.70
Scoured	250,000	1.15 @ 2.30	100,000	1.00 @ 1.90
Foreign				
South American	500,000	$0.70 @ $1.70	50,000	$0.50 @ $1.25
Cape	250,000	1.40 @ 2.20	50,000	1.00 @ 1.90
Australian	500,000	1.60 @ 2.80	75,000	1.25 @ 2.00

Retail Trade Retail trade received a strong stimulus from the wave of price reductions and the huge volume of advertising which they received. But it did not, apparently, revert to the high levels of the first of the year, and soon relapsed into the dullness which was manifested in April. To a large degree the consumer returned to his waiting attitude, partly in the hope of still further price cuts. But extravagance is still in evidence. The sales of necessities, apart from food, have declined more than the sales of luxuries. The first two weeks of June have revealed a dullness in the retail jewelry trade, and still more so in clothing. But the demand for automobiles, particularly the lower-priced cars, has held up fairly well. Places of amusement are still crowded and money is spent lavishly on things that go to make a good appearance.

How much the stocks of department stores were reduced by lower prices may be estimated from figures for stores in New York City. Even with the heavy sales recorded, reports show that their stocks decreased only about 4 per cent. from April. In many instances stocks have been added to by the arrival of goods delayed in transit. Values of stocks of merchandise held by these stores in April were 54 per cent. greater than for the corresponding month last year, and this figure was increased to 56 per cent. in May.

The slowing down in sales has led to many cancellations and the volume of these has become so large that manufacturers and wholesalers are taking steps to make contracts more binding, and to protect themselves from a repetition of present conditions. In many lines collections are reported as much slower than in recent months.

Iron and Metals The movement of fuel for mills and furnaces is in greater volume than a month ago. Plants are running at from 75 to 80 per cent. of capacity, an increase in productivity of from 10 to 20 per cent. over a month ago. Production of pig iron and steel ingots is increasing and shipments of finished steel are larger. There is less accumulation of finished pieces in yards and warehouses. Prices are holding up generally, but improved transportation facilities and the small amount of new buying have a tendency to soften the quotations of independent manufacturers. Coke prices, however, are $3.00 a net ton higher than a month ago.

Domestic buying, according to the Iron Age, is of an emergency nature, but selling efforts are subordinated to efforts to move freight. Supplies of fuel and raw materials are still too low to warrant any rapid expansion of activity.

May pig iron production in the United States increased to 2,988,000 gross tons, as against 2,739,000 tons in April. Steel ingot production rose to 2,883,000 tons as against 2,638,000 tons in April.

British production figures, which were expected to show the effects of labor troubles, reached the highest point for both iron and steel of any month since the Armistice. Pig iron production was 738,000 tons in May, as compared with 671,000 tons in April. Steel ingot production was 848,000 tons in May, as compared with 793,000 tons in April. British prices show little change from a month ago.

Of the non-ferrous metals, zinc and lead have been featureless during the past month and prices show little change. Copper refiners in New York, which is the refining center for the country, have been operating at only about 50 per cent. of capacity, because freight delays prevented the arrival of shipments of raw copper. Prices are close to 19 cents, though there have been some re-sales by Japanese interests at 18.25 cents, New York, for June. Tin has continued its decline. It fell from 60.25 cents a pound on May 4 to 49.25 cents on June 8, due to the activities of speculative interests in the London market.

Building The inadequate amount of residential building continues to be a feature of the building situation in this district. Not only is the number of dwellings being built below the present extraordinary demand, but in the Borough of Manhattan private houses, tenements, and even large hotels, have been torn down or reconstructed into business property.

Contracts awarded for dwelling construction decreased very materially both in number and value during May, as compared with April. Materials are very high and hard to get. Supplies are hard to move; instances are cited of brick being shipped to New York by truck from Philadelphia.

According to the F. W. Dodge Company's figures, projects of all kinds contemplated in May in this district amounted to $106,573,300, and contracts awarded to $51,051,500, as compared with $104,490,300 and $87,741,100 respectively, in April. Contracts awarded fell off approximately $37,000,000 during the month, while contracts for house-building projects dropped from $37,417,500 to $12,064,300. The number of contracts for house building fell from 563 in April to 443 in May. Figures show that this slowing down in building activity was general throughout the country.

Crop Conditions May weather was so favorable in New York State that the handicap of a late season has been overcome for most crops and the general condition on June 1 was only a fraction of 1 per cent. below the ten-year average for that date. In New Jersey there has not been an equal improvement and crops are still from two to three weeks late, chiefly the result of late planting due to the labor shortage. Prospects for an excellent fruit crop are exceptionally bright in both states, and the apple and pear crops of New York State are estimated at 95 per cent. of normal, indicating an apple yield of 34,000,000 bushels, as compared with 17,000,000 bushels in 1919 and a pear yield of 2,000,000 bushels, or nearly a third more than in 1919. Other fruit yields will be only slightly below normal in New York State, and in New Jersey may even exceed the ten-year averages. Although grain crops in New York State have been hurt somewhat by the dry weather early this month, these crops are all still about normal, with winter wheat at least 3 per cent. better than usual, while oats, barley, and rye are within one per cent. of their usual condition at this time. In New Jersey the average condition of the grains is slightly lower; oats, hay, clover, alfalfa, and rye range from 85 to 89 per cent. of normal, with wheat only 74 per cent. of normal for this time.

For the entire Second Federal Reserve District a wheat yield of 11,423,000 bushels was forecast on June 8 by the Bureau of Crop Estimates. The 1919 estimate was 12,493,000 bushels for the district. A considerable increase in the oats crop is estimated this year, a yield of 42,011,000 bushels being forecast on June 8 as compared with 31,856,000 bushels last year. A yield of 6,168,000 tons of hay is anticipated this year, while in 1919 production was estimated at 7,073,000 tons.

Immigration and Emigration

Immigrants are coming to the United States in increasing numbers. As in recent months women and children predominate. Italy is still the principal source of immigration, with considerable numbers of immigrants coming also from the British Isles, Greece, Poland, Holland and Scandinavia. Thirty-five hundred more entered the Port of New York in May than in April. The number of arrivals, under normal conditions, increases with the spring months, but it is difficult to make comparisons with previous years because immigration has been hampered this year by limited shipping facilities. Arrivals in April and May, 1912, were twice as great, and in the corresponding months in 1913 about three times as great, as this year. There was an increase in arrivals from April to May in both these years. Reports received by the shipping companies indicate a large immigrant business for the year.

During May the number of departures from the Port of New York showed a decline. Departures were slightly above the departures for the corresponding months in 1912 and 1913. Figures for the past six months are shown in the following table:

	IMMIGRANTS	EMIGRANTS
December	17,557	21,996
January	34,529	25,051
February	25,057	24,379
March	22,086	18,714
April	39,598	26,169
May	40,048	21,162
Total	175,875	137,471

Labor

Comparatively slight reductions in employment in May are reported by the New York State Industrial Commission, but later reports show that much unemployment exists among workers in the clothing and textile industries. In some cloak and suit factories 70 per cent. of the operatives are not at work. Inactivity is usual at this season of the year, but it is now exceptionally severe. During the past few years only 30 to 40 per cent. have been laid off during the dullest season. Practically all the fur makers in New York City are on strike, and it is estimated that 10,000 are out. The long strike of truckmen and coastwise longshoremen in New York City has continued, to the embarrassment of local transportation.

In contrast to the preceding is the increased activity in the building trades. It is estimated that a month ago only about 75 per cent. of the men were working, but now the percentage has been increased to 98. There is a shortage of several hundred housewreckers.

While unemployment of skilled workers has resulted from the curtailment of production by textile mills and in other industries, there is a shortage of unskilled workers. The supply of immigrant labor is below the demand and there is a shortage of farm labor.

According to the State Industrial Commission the average weekly earnings of factory workers in New York State were $28.45 during May, an increase of 65 cents over the average for April and the highest reported so far. The most marked increases were in metal work, machinery, railroad repair shops, shipbuilding and furniture. The greatest decreases were in men's and women's clothing and in fur and fur goods. It is probable that part of the increases were due to the laying off of the less competent workers, whose lower earnings reduced the average.