

From time to time brief descriptions of the operations and activities of the Federal Reserve Bank of New York will be printed on the last page of the REVIEW. This month the up-building of the discount market is described.

MONTHLY REVIEW

Of Credit and Business Conditions

In the Second Federal Reserve District

By the Federal Reserve Agent, Federal Reserve Bank, New York

New York, April 1st, 1921

Credit Conditions

THE improvement in credit conditions resulting from the decline in the volume of bank deposits and loans is reflected in the higher reserves of the

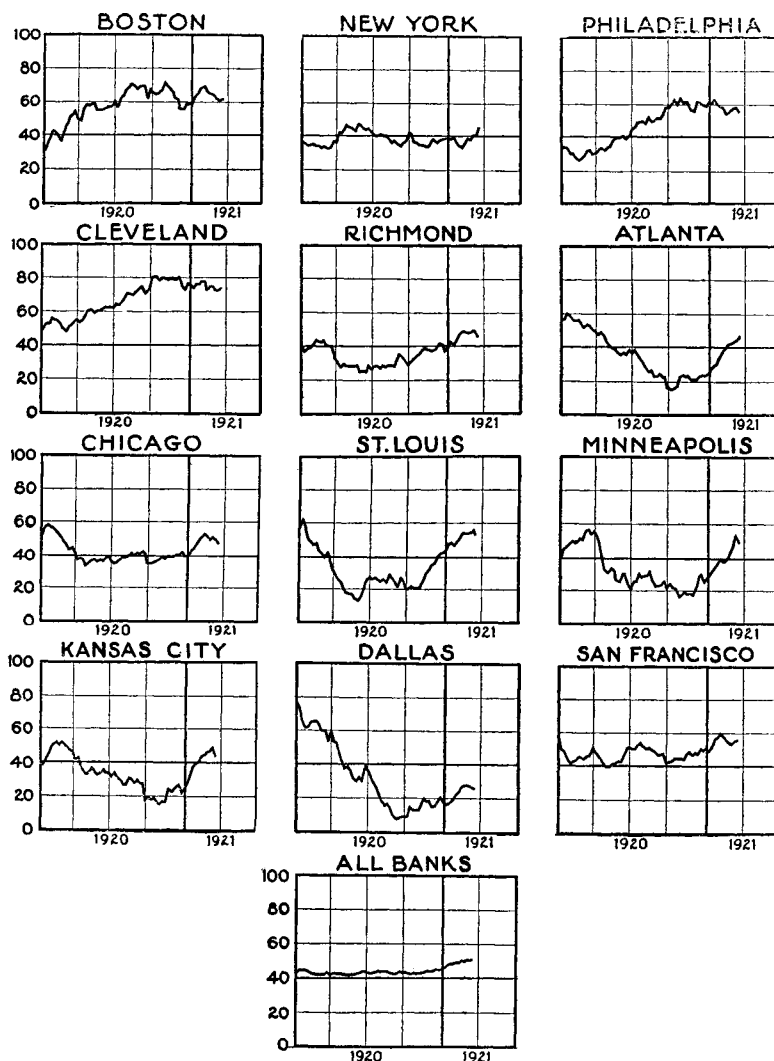
Federal Reserve Bank of New York and of the Federal Reserve System as a whole. During the extraordinary demands for credit which prevailed during the greater part of 1920, not only did the member banks have to borrow increasing amounts of their Federal Reserve Banks, but many of the Federal Reserve Banks, in order to maintain their legal reserves of gold and lawful money, had to borrow from other Federal Reserve Banks in districts where the credit demands were not so great.

In January, 1920, for example, the Federal Reserve Bank of New York borrowed \$100,000,000 from the Reserve Banks of Atlanta, Dallas, Cleveland, Chicago, St. Louis, and San Francisco. This is the largest amount which any Federal Reserve Bank has yet had to borrow, but within a couple of months the center of credit pres-

sure moved elsewhere, the borrowing was paid off, and the Federal Reserve Bank of New York was in a position to lend to other Reserve Banks. On several other occasions during the year it was a borrower or became a lender. Through this process credit equilibrium and

elasticity were maintained, and credit was at all times available for legitimate needs throughout the country.

But the intensity of the credit pressure varied greatly in different sections of the country during the successive periods of the year. This is clearly illustrated in the diagram printed on this page. In these twelve blocks are shown the reserve percentages of each of the Reserve Banks as they would have been had the banks neither borrowed to maintain their legal reserves nor made loans to other Reserve Banks; as they would have been had each Reserve Bank operated purely as an independent bank without any means of obtaining accommodation from other Reserve Banks. Although on this basis the individual Reserve Banks show reserves varying from 81 per cent. to 9 per cent., each was



Reserve Percentages of Federal Reserve Banks Disregarding the Credits Extended by Various Federal Reserve Banks to Other Federal Reserve Banks.

able by borrowing from other Reserve Banks, if necessary, to maintain its reserve at or above the legal requirement of 40 per cent. against notes and 35 per cent. against deposits. In October, 1920, these inter-Reserve Bank borrowings reached the high level of \$267,000,000. They were effected largely to furnish necessary credit to the agricultural districts; also, as has been said, to New York City where credit pressure anywhere in the country is generally promptly reflected. At present the movement of goods and the improvement in credit in the borrowing districts has enabled these inter-Reserve Bank borrowings to be reduced to \$19,000,000.

The block at the bottom of page 1 is a composite of the twelve individual bank reserves, and shows how steady the reserves of the whole system have been. This gives evidence of the unity of the system and of its effectiveness as a stabilizer of credit. It shows that the gold reserve of the Federal Reserve Banks served as a reservoir of credit for the entire country, each section being able to draw upon the entire reservoir for its seasonal needs. Districts in which the credit pressure was slight because of dullness of manufacturing or merchandising and which, therefore, had a surplus of reserves were able to transfer these to districts which needed them because of agricultural or other requirements. The machinery of the system enabled these transfers to be made instantly and without disarranging or reducing credit already extended in the lending districts.

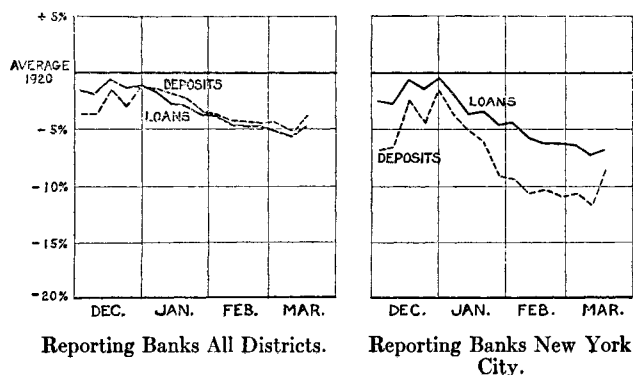
Bank Loans and Deposits

The decline in loans and deposits of member banks in New York City and also of member banks throughout the country, which report each week to the Federal Reserve Board, is shown in the following table.

	Amount March 18	Change from February 18	Per Cent. Decline from high	Date of high
	Millions of dollars.			
N. Y. CITY:...				
Loans *.....	5,260	-26	12.5	Oct. 10, 1919
Deposits....	4,575	+78	15.8	Sept. 19, 1919
ALL DISTRICTS:				
Loans *.....	16,074	-23	7.0	Oct. 15, 1920
Deposits....	13,650	+48	6.7	Jan. 16, 1920

* Includes investments, loans, and paper rediscounted.

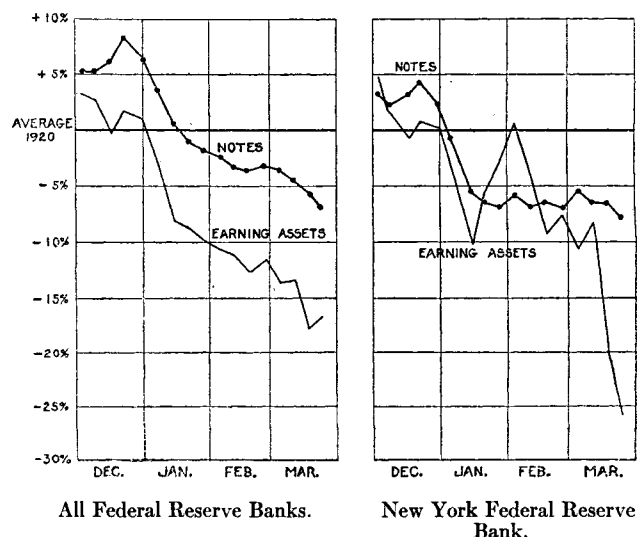
The percentage declines in loans and deposits from the 1920 average are shown in the following diagram.



The decline in loans and note circulation of the Federal Reserve Bank of New York, and also of all twelve Federal Reserve Banks, is shown in the following table.

	Amount March 25	Change from Feb. 25	Per Cent. Decline from high	Date of high
	Millions of dollars.			
RESERVE BANK OF NEW YORK:				
Earning Assets	799	-199	33.6	Feb. 27, 1920
Note Circulation	781	-16	12.0	Nov. 5, 1920
ALL RESERVE BANKS:				
Earning Assets	2,692	-162	21.3	Oct. 15, 1920
Note Circulation	2,931	-121	13.9	Dec. 23, 1920

These figures, in terms of percentage declines from averages for the entire year of 1920, are illustrated in the following diagram:



Movement of Funds

In the September and December issues of the MONTHLY REVIEW an account was given of the quarterly movements of funds culminating in the redemption of certificates of indebtedness and the payment of taxes on September 15 and December 15, 1920. A similar movement took place in connection with the March 15, 1921, payment of taxes. There were, however, certain striking differences between the movement just completed and the movements of the two previous periods. The differences are owing largely to the smaller size of Government operations, the continued liquidation of loans in New York City banks, and the improved reserve position of the Federal Reserve Banks. The table on the next page brings into comparison the financial operations of the past quarter and the two previous quarters, printed to help to an understanding of

these quarterly movements. The figures, other than those of the Federal Reserve Bank of New York, are for the principal New York City banks.

	Tax Payment Date		
	Sept. 15 1920	Dec. 15 1920	Mar. 15 1921
	(Millions of Dollars)		
Prior to tax payment date:			
Deposits of New York City banks decreased.....	320	470	558
<i>Resulting in</i>			
Drain of gold from the Federal Reserve Bank of New York to other Federal Reserve Banks.....	198*	337	332
<i>Substantially offset by</i>			
Government transfers to New York through gold settlement fund, rediscounts with other Federal Reserve Banks and sales of acceptances and certificates of indebtedness to other Reserve Banks.....	186*	220	292
On or about tax payment date:			
Deposits of New York City banks increased.....	453	407	191
<i>In connection with</i>			
Redemption of certificates of indebtedness, this district.....	425	344	200
<i>Which were in excess of</i>			
Tax payments, this district, which amounted to.....	230	220	170
<i>The excess being temporarily financed by</i>			
Loan by Federal Reserve Bank of New York to the Government... Deposits increased also in connection with	146	74	107
New issues of certificates of indebtedness paid for by book credit....	200	212	183
<i>Following the increase in deposits</i>			
Borrowings of New York City banks from Federal Reserve Bank declined.....	237	187	147
<i>And</i>			
Federal Reserve Bank of New York rediscounted for other Federal Reserve Banks.....	19	0	0
Subsequent to tax payment date:			
<i>Concurrently with collection of tax checks and sale of certificates by banks to customers</i>			
Deposits of New York City banks declined.....	196	132	82
<i>Resulting in</i>			
Increase in borrowings at the Federal Reserve Bank.....	96	112	42

* For three weeks only.

Commercial Paper

The demand for commercial paper in March has been dull, though normally this is a month of increased activity. Some dealers report slightly larger sales than a month ago, but these appear to be offset by continued inactivity elsewhere. Liquidation of loans throughout the country apparently has not gone far enough to permit many banks, ordinarily buyers of commercial paper, to reenter the

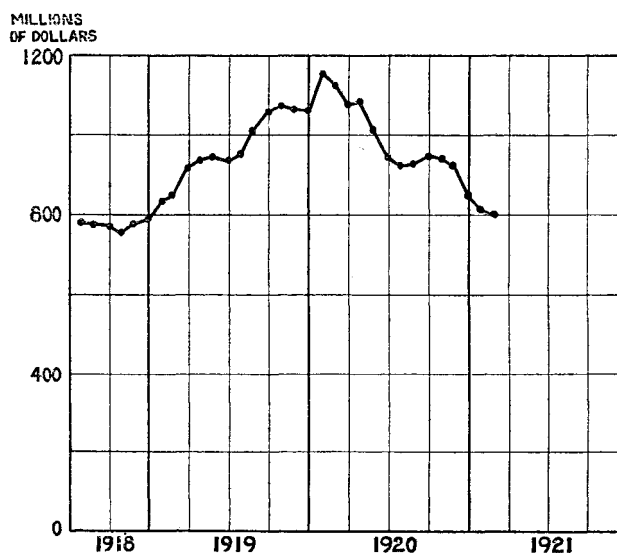
market, and other banks which are in a position to buy continue to await the return of more settled business conditions.

Distribution depends largely on the position of individual banks, but on the whole dealers' reports indicate that their most favorable market is with the smaller banks in New York and adjoining States, that demand from the middle west is only fair, and that the market in New England, the Pacific coast, and the south is quiet.

The supply of paper has increased somewhat, and because of comparatively slow movement, has tended to increase dealers' portfolios. This increase in supply appears to be partly seasonal, partly the result of a shifting of loans from the borrowers' own banks to other banks through the open market, and partly the result of slow collections. Some increase in requirements of the textile and shoe industries has possibly reflected a larger movement of merchandise in those lines.

Rates continue to range from $7\frac{1}{2}$ per cent. to 8 per cent., with most transactions at $7\frac{3}{4}$ per cent. The lowest rate applies to firms in good standing whose paper has not appeared frequently in the market.

The diagram printed below shows that the volume of commercial paper outstanding has continued to decrease, but at a less rapid rate than during December and January. The diagram is based on reports to this bank from dealers who represent a large majority of the business done in the country.



Commercial Paper Outstanding—11 Dealers.

The Bill Market

In the last week of February, a comparatively light supply of bills, particularly of the 90-day maturities, coupled with a broad demand, caused dealers to lower their rates. Rates on New York member bank 90-day bills, which had been offered at 6 per cent., declined to $5\frac{3}{4}$ or $5\frac{7}{8}$ per cent. This action resulted in a reduction of sales and an increase in dealers' bill portfolios. Subsequently most of the dealers restored their rates to 6 per cent.

Fluctuations in buying occurred chiefly in New York City, as demand from interior banks was generally well maintained, and the market continued to broaden and to include new buyers. The reduced volume of New York City purchases led to a slight reduction in aggregate sales as compared with the total for the thirty days prior to February 20.

During the past month, some few import bills from the Orient have again been seen in the market but the principal volume of new paper has been drawn against imports of sugar, silk, coffee, wool, and burlaps, and exports of cotton, tobacco, grain, packers' products, and foodstuffs. Also finance bills for providing dollar exchange for South America have been offered in rather substantial volume.

The minimum buying rate of the Federal Reserve Bank remained unchanged at $5\frac{3}{4}$ to 6 per cent., according to maturity, for indorsed prime bills.

Stock Market Money Rates

The Stock Exchange money market between February 20 and March 20 was quiet and generally firm, with 7 per cent. the prevailing rate for call loans. Demand for funds was comparatively light, and the average daily turnover of money was small. Though call money on the Stock Exchange up to the latter half of March renewed consistently at 7 per cent., the closing rate fell to 6 per cent. late in February and again after the March 15 maturities of Treasury certificates were paid, when also the renewal rate fell to $6\frac{1}{2}$. A decline in stock market money rates has been usual around quarterly tax days, when the proceeds of matured certificates become available, and while tax checks are still in process of collection. Declines to 6 per cent. in the regular market were accompanied by occasional transactions in the outside market as low as 5 per cent.

The time money market continued inactive, with rates largely nominal. These were $6\frac{1}{2}$ to $7\frac{1}{2}$ per cent., according to collateral and maturities.

Bond Market

The bond market in the last thirty days was dull with prices tending downward. Heaviness in stocks, the large available supply of recent issues and a certain amount of liquidation to obtain funds with which to pay taxes, contributed to an average decline of 2 to 3 points from the high levels of January. A number of recent issues, which originally had been much oversubscribed, declined. Following the tax payment date all classes of bonds became slightly firmer.

Disagreement over reparations was reflected in weakness of recently issued foreign government securities, and most of them sold down to new low levels for the year. Losses, however, in the main were quickly recovered.

Japanese sterling bonds continued to reflect the higher sterling exchange rate, reaching nearly the highest prices of the year. Cuban issues continued their recovery, and by the middle of March were up 3 to 10 points from January low prices.

February sales of corporation and miscellaneous bonds on the New York Stock Exchange were \$75,000,000, the smallest total since August, but slightly larger than the total sales in February, 1920.

United States Securities

Notwithstanding further declines in corporate bond prices, Liberty bonds maintained a fairly consistent level. Prices tended somewhat lower in the latter part of February, and again in March before the payment of income taxes, but lower prices at each of these periods were followed by recoveries. The $3\frac{1}{2}$ s were exceptions to the general trend, continuing the decline which began in January, and fell nearly to the 1920 low level. Victory notes continued strong, and again established new high levels for recent months.

Whereas sales of corporate and miscellaneous bonds are running slightly in excess of sales a year ago, trading in Liberty bonds shows a substantial diminution. A total of \$152,000,000 Liberty bonds and Victory notes was sold on the New York Stock Exchange during February, 34 per cent. less than the total for February last year.

Two new issues of Treasury certificates, one at $5\frac{1}{2}$ per cent. for six months, and the other at $5\frac{3}{4}$ per cent. for one year, were offered on March 15 and promptly oversubscribed. Total allotments to the country amounted to \$481,803,000, of which \$209,909,000 were allotted in this district. Treasury certificates which matured on March 15 amounted to \$506,000,000, of which about \$200,000,000 were redeemed in this district.

All outstanding issues of certificates of indebtedness continue to be quoted in the outside market at or above par. This market, which is newly developed, offers excellent facilities for the investment of funds for short periods and has facilitated the present wide participation by the public in certificate purchasing.

New Financing

Long term domestic issues recently placed on the market in small or moderate amounts generally sold well, but short term domestic issues and foreign government securities found a slow market. The large volume of new issues put out in previous months, the very small amount of buying by banks, and generally depressed bond prices were factors in the slack demand. Offerings in March were relatively small in both size and number.

Fifteen year 8 per cent. sinking fund gold bonds of the State of Sao Paulo, Brazil, were offered early in March at a price to yield nearly $8\frac{1}{2}$ per cent., a slightly higher yield than on any foreign government offering in recent months. Similar offerings were made at the same time in London and Amsterdam.

Total figures for February domestic issues, both railway and industrial, reached nearly \$300,000,000, an increase of 47 per cent. over the total for February, 1920, and the largest February figure since 1916. Notes and bonds constituted 95 per cent. of all corporate securities placed on the market. About 30 per cent. of the offerings were to pay off maturing obligations.

Stock Market

Speculative pressure, accompanied apparently by some real liquidation, caused a sharp decline in stock prices in the second week of March. Railroad shares were particularly weak, following the publication of statements of railway earnings. Average prices of representative railroad stocks declined close to the December low level, and shares of a number of important roads reached the lowest prices in recent years. Industrial stocks, as a group, lost about half their year-end advance.

This decline was followed almost immediately by a rally, which in the case of the industrial stocks resulted in an almost complete recovery of losses. Railroad stocks recovered less completely.

Trading in March, though somewhat more active than it had been since January, was only in moderate volume. February sales, totaling 10,000,000 shares, were the smallest for that month since 1915.

Foreign Exchange

Transactions in foreign exchange in the past four weeks have been restricted mainly to routine business. Price fluctuations have been within a comparatively narrow range with the day-to-day movements of European rates governed largely by international political developments.

The sterling rate moved within a range of 7 cents, but remained near \$3.90 during most of the period. Reports that French and British troops had advanced into Germany brought heavy speculative selling on March 8 with a decline on that day of five cents, but this loss was recovered within two days.

The continental exchanges moved with sterling during most of the period, although lire in the final week became exceptionally strong and at one time touched 4.11 cents, the highest price since October, 1920, owing largely to reports of material improvement in Italian financial conditions. Far Eastern and South-American exchanges moved slightly lower.

The following table shows the high, low, and closing rates of principal exchanges for the period from February 21 to March 19.

Country	High	Low	Last	Per Cent. Deprecia- tion from Par
England.....	3.9125	3.8438	3.9125	19.6
France.....	.0730	.0688	.0695	64.0
Italy.....	.0411	.0363	.0406	79.0
Spain.....	.1405	.1380	.1395	27.7
Germany.....	.0167	.0150	.0161	93.2
Switzerland.....	.1742	.1646	.1737	10.0
Sweden (Stockholm).....	.2305	.2215	.2305	14.0
Holland.....	.3440	.3394	.3440	14.4
Belgium.....	.0761	.0718	.0728	62.3
Argentina.....	.3492	.3359	.3378	20.5
China (Hong Kong).....	.4888	.4413	.4700	*
China (Shanghai).....	.6650	.5838	.6325	*
Japan (Yokohama).....	.4438	.4825	.4825	3.2
Canada.....	.8838	.8650	.8750	12.5
Bar Silver in N. Y.....	.5875	.5288	.5775

* Silver Exchange Basis.

Gold Movement

February imports of gold amounted to \$44,422,000, an increase of \$6,228,000 over those for January. The sources of these imports were:

Country	Amount	Per Cent.
France.....	\$13,720,000	30.9
England.....	10,682,000	24.0
China.....	5,818,000	13.1
British India.....	5,212,000	11.7
Other.....	8,990,000	20.3
Total.....	\$44,422,000	100.0

As exports in February were only \$1,036,000, the excess of imports amounted to \$43,386,000. This was a larger excess than in any month of 1920 with the exception of October, when gold which had been held under earmark at the Bank of England was in process of transfer to this country. That gold, however, was included among the country's gold reserves in August, 1919, and the February excess of imports is the largest accession to gold reserves in a single month since that time. Gold receipts continued in March in large volume.

Foreign Trade

Measured by last year's standard of activity, current export demand for American products remains slow. But if the comparison is made with the extremely dull period at the end of 1920, business in the opinion of exporters has shown an increase. This appears to obtain more particularly in steel than in other manufactured commodities. Cancellations of orders for steel have practically ceased, and the amount of new business has shown a moderate, but nevertheless distinct, advance over that of two months ago. Demand is chiefly for railroad supplies, with a somewhat increased inquiry also for construction materials and most standard materials with the exception of plates. Orders are widely scattered as to source.

Orders for textiles and general merchandise are chiefly for the purpose of filling in stocks. Reports from South America indicate that there are still large stocks of goods on hand, and the persistent weakness of the South American exchanges has been unfavorable to prompt collections. Not only have higher premiums been quoted for the dollar, but the European exchanges have likewise moved against South America. In March, the pound sterling reached a premium in the Argentine market for the first time since 1914.

Foreign demand for cotton has continued slack, and the German market which had been buying from American stocks in Germany has become inactive. Recently, however, activity in the British cotton goods trade has increased slightly, and there has been a stronger tone in the Liverpool market. Cotton shipments during February largely on old orders were 37 per cent. less than in February last year. Export demand for American wheat has increased, and the British Commission was a conspicuously large buyer shortly after the middle of March. Recent recessions have brought the price of American wheat under the Argentine price. Demand for flour has been fairly consistently maintained.

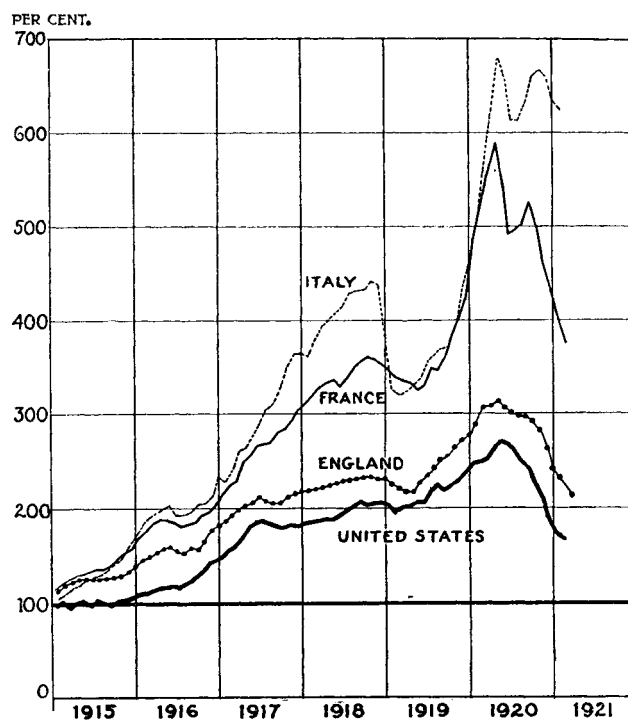
February foreign trade figures reported by the Department of Commerce, showed exports valued at \$489,000,000, a decline of 25 per cent. compared with the January total. As the normal seasonal fall from January to February is only about 14 per cent., these figures appear to indicate a substantial decrease in outgoing commerce, even if allowance is made for price changes. February shipments were to a large extent in delivery of orders placed some months previously.

Imports, on the other hand, increased nearly 3 per cent. to \$215,000,000. Considering the lower prices and the fact that February imports normally are about 4 per cent. less than January imports, a real increase in the volume of imports is indicated.

World Commodity Prices

There has been no pause in the downward movement of world prices. The Economist and Statist indices in Great Britain both indicate more extensive declines during February than during January, and the number compiled by the French Bureau de Statistique General has shown a steadily accelerating decline in the past three months. The only index of foreign prices thus far available for the early weeks of March is the index compiled by this bank of prices in England for 25 basic commodities, and it shows no abatement in its rate of decline. In the United States the downward movement, as shown in the Department of Labor index, is slightly less rapid than in recent months.

If a general average were to be taken of the available figures on world prices, it would show that prices have fallen about one-third from the high point reached in 1920, and that they are at present a little more than twice as high as they were in 1913. The United States and Japan are the outstanding countries in which declines have been greater than the average, and Germany,



Wholesale Commodity Prices in Four Countries
(Average Prices in 1913 = 100 per cent.)

Italy and France are the outstanding countries in which prices are still relatively highest. Prices in Scandinavian countries are also considerably more than twice as high as in 1913.

The latest reported index numbers from different countries are shown in the table at the foot of this page, and the figures for four countries are plotted in the accompanying diagram.

Indices of Wholesale Prices

1913 average = 100 per cent. unless otherwise noted

Country	Latest Quotation	Per Cent. Change During			Per Cent. Decline from High	Date of High
		Dec.	Jan.	Feb.		
United States:						
12 basic commodities (1).....	115.6 (Mar. 19)	- 6.7	- 4.5	-12.8	52.3	May 17, 1920
Department of Labor.....	167 (Feb. av.)	- 8.7	- 6.3	- 5.6	38.6	May 1920
Dun's.....	150.5 (Mar. 1)	- 6.2	- 6.5	- 2.1	30.9	May 1, 1920
Bradstreet's.....	128.8 (Mar. 1)	- 7.0	- 2.3	- 4.1	43.2	Feb. 1, 1920
Great Britain:						
Economist.....	192.2 (Mar. 1)	-10.2	- 5.2	- 7.9	38.0	Apr. 1, 1920
Statist.....	214.9 (Mar. 1)	- 7.4	- 4.8	- 7.2	31.2	May 1, 1920
25 basic commodities (1).....	172.0 (Mar. 19)	- 9.9	-10.6	- 7.6	50.2	Mar. 12, 1920
France.....	376.0 (Feb. av.)	- 5.6	- 6.5	- 7.5	36.0	Apr. 1920
Italy.....	622.8 (Feb. 1)	- 3.4	- 2.0		8.3	May 1, 1920
Japan.....	200.9 (Jan. av.)	- 7.1	- 2.2		37.5	Mar. 1920
Canada.....	207.6 (Jan. 15)	- 4.5	- 3.2		21.1	May 15, 1920
Sweden (2).....	250 (Feb. 15)	- 9.7	-10.7	- 6.4	32.8	Dec. 15, 1918
Australia (3).....	196 (Jan. av.)	- 5.3	- .5		16.9	Aug. 1920
Calcutta (4).....	178 (Feb. 1)	- 7.2	- 1.1		18.3	Feb. 1, 1920
Norway.....	309.2 (Feb. 1)	- 9.4	-16.4		28.6	Oct. 1, 1920
Germany (5).....	136 (Feb. 1)	- 3.2	- 9.3		13.4	May 1, 1920
Netherlands.....	233.0 (Dec. av.)	-10.6			41.5	1918 Average
Denmark (6).....	280 (Mar. 1)	- 8.8	-15.0	- 3.4	30.5	Nov. 1, 1920

1. Computed by this bank. 2. July 1, 1913 to June 30, 1914 = 100. 3. July, 1914 = 100. 4. End of July, 1914 = 100. 5. Jan. 1, 1920 = 100. Revised figures. 6. July, 1912 to June, 1914 = 100.

Domestic Prices

Of the 327 commodities making up the Department of Labor index number for wholesale prices, 207 showed a decline in price in February; 33 showed an increase; and the remaining 87, the majority of which were in the food or clothing groups, remained stationary. The index as a whole declined 5.6 per cent. to 67 per cent. above the 1913 level. The percentages of decline since the peak was reached in May, 1920, have been as follows:

June, 1920.....	1.1 per cent.
July, 1920.....	2.6 per cent.
August, 1920.....	4.6 per cent.
September, 1920.....	3.2 per cent.
October, 1920.....	7.0 per cent.
November, 1920.....	8.0 per cent.
December, 1920.....	8.7 per cent.
January, 1921.....	6.3 per cent.
February, 1921.....	5.6 per cent.

Since December this index has shown a diminishing rate of decline. The index of 12 basic commodities compiled by this bank has a tendency to move more rapidly than the Department of Labor index which includes manufactured products involving successive labor costs, as well as raw materials. With the exception of a rapid decline in two weeks of February, this index also has shown a tendency to fall less precipitately.

A month ago a tendency was noted toward a levelling of prices among the various groups of commodities making up the Department of Labor index. During February this tendency was interrupted. The group showing the greatest decline was food, which was already nearer to the pre-war level than any other group except farm products and metals. The group showing the smallest decline was house furnishings, which is farther above the 1913 level than any other group. The position of the different groups making up the index is shown in the following table:

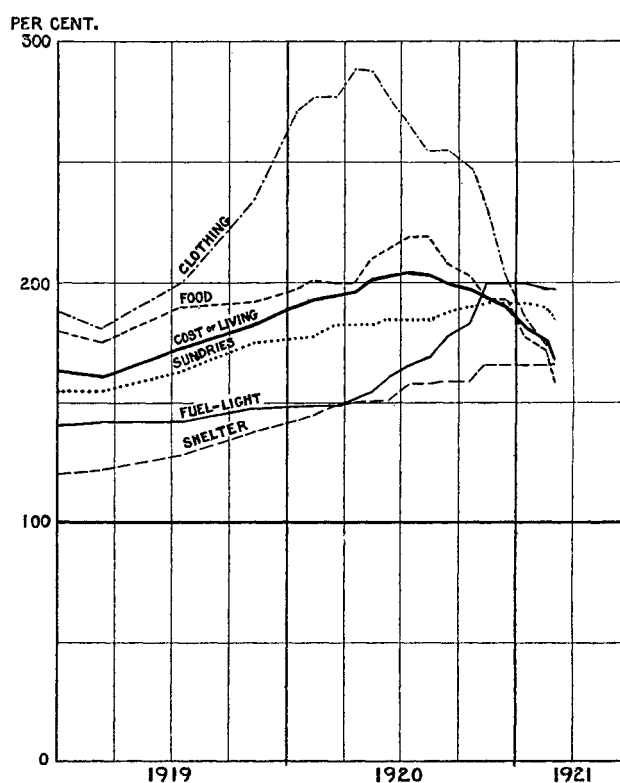
Commodity Group	February Index	Highest Level	Per Cent. Decline from High	Per Cent. Decline Jan. to Feb.
Farm products.....	129	246	48	5.1
Metals.....	146	195	25	3.9
Food, etc.....	150	287	48	7.4
Chemicals.....	178	222	20	2.2
Cloths and clothing..	198	356	44	4.8
Fuel.....	218	284	23	4.4
Building materials...	222	341	35	7.1
House furnishings...	277	371	25	2.1
Miscellaneous.....	180	247	27	5.3
All items.....	167	272	39	5.6

Cost of Living

The cost of living for the typical wage earner's family in the United States decreased 4.4 per cent. between

February 1 and March 1 according to the reports of the National Industrial Conference Board. This decrease is greater than that reported for January, but about the same as in December. Practically all of the month's decrease is due to lower retail prices for food. As the index is weighted in accordance with the proportions of the family budget which are spent for different items, food prices count heavily in determining the total. With the February decline the index number has reached a level 69 per cent. above that for July, 1914, and is 18 per cent. below the maximum.

The following diagram traces the movement of the different elements making up the cost of living index number:



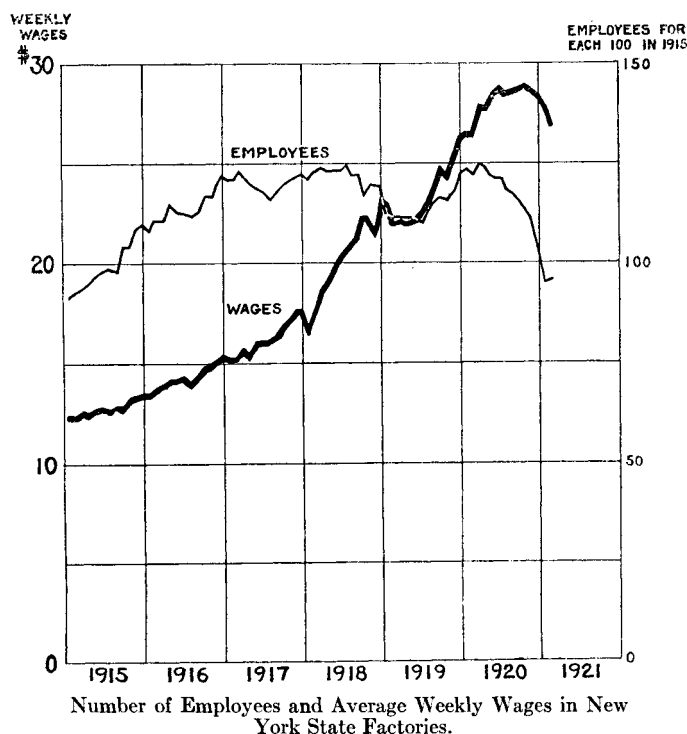
Elements of the Cost of Living.
(Figures for July, 1914 = 100 per cent.)

Wages

Average weekly earnings in New York State factories during February were \$26.77 per worker as compared with \$27.61 in January, the greatest decrease recently registered in a single month. From the high point reached last October there has been a 7 per cent. decline. Numerous wage cuts have affected the average less than might have been expected because there is a tendency on the part of employers to retain the most efficient and best-paid workers and to dispense with the least efficient and lowest paid. The wage decline in this district has been somewhat less rapid than in the country as a whole.

With the exception of the textile industry, in which there were uniform reductions of $22\frac{1}{2}$ per cent., there has been great diversity in the amount of reductions as between industries and among individuals doing a similar kind of work. The rate of pay for common labor in one city in the district shows a wide range of from 30 to 50 cents an hour. There has been practically no lowering of the union scale of wages of artisans in New York City. In many factories, however, wages of highly skilled labor have been cut from 10 to 30 per cent.

Conferences on wage reduction are now in progress between railroad executives and representatives of the workers. The average monthly pay of a railroad employee on the principal road in New York State in 1915 was \$75. In January of this year the average was \$162.50.



Employment

Increasing employment in this district, first apparent during the latter part of February, was again reported in March. Estimates received by this bank indicate that about 5 per cent. more persons are employed to-day than one month ago. The most notable change this month was the seasonal increase among farm workers.

Changes in industrial employment in New York State vary considerably as between different industries. Trades which were first affected by the business recession of last year, such as the textile trades, show at this time the most definite tendency toward re-employment. *Vice versa*, there is increasing idleness in the metal trades and on the railroads which were among the last to feel the recession.

In New York City the continued lull in shipping has

caused more unemployment among seamen, dock-workers, freight-handlers, drivers and longshoremen. There has been little increased activity as yet in the building trades. A labor dispute in the men's clothing industry, involving about 60,000 workers, has continued for several months.

An investigation of New York up-State conditions by this bank shows increased employment in the Rochester shoe and clothing factories, but no changes of importance among miscellaneous manufacturing plants. There have been no signs of a resumption of activity in the metal trades. One automobile plant in Syracuse reports that it is now operating on full time and is planning to put on a night force in the near future. At Troy slightly more persons are employed in the collar and shirt factories and at Cohoes the textile mills have resumed operations. At Utica there has been an increase in employment in the textile mills. The most notable increase in the Mohawk Valley, however, has been on the farms in the surrounding country where many persons from the cities, who have been unemployed for several months, are now finding work.

The New York State Industrial Commission reports that in February 2 per cent. more workers were employed in factories in the State than in January. For the country as a whole, the latest report of the United States Employment Service for 65 industrial centers showed 1 per cent. less workers employed on February 28 than on January 31. The greatest decreases were in the iron and steel industry and railroad repair shops, and the greatest increases in automobiles and textiles. The cities to show greatest decreases were Youngstown and Pittsburgh, and by far the greatest improvement was shown by Detroit, in which there was an increase of more than 20,000 in the number employed.

Immigration

Strict quarantine regulations and the rigid physical examination of immigrants at the port of New York caused the number of arrivals here during February to decline sharply. Many large vessels, which ordinarily dock at New York, were diverted to Boston and Philadelphia.

Arrivals and departures at the port of New York in recent months are shown in the following table:

Month	Arrivals	Departures	Net Increase
Average, 1910 to 1914.....	63,316	18,082	45,234
December, 1920.....	67,310	31,000	36,310
January, 1921.....	56,465	37,442	19,023
February, 1921.....	34,595	22,404	12,191

During the first three weeks of March there was an increase in the number of arrivals, compared with figures for the first three weeks of February, due largely to the admittance of many immigrants who had been held at quarantine for several weeks. Italy continues to send the largest number of immigrants, and Polish and Russian Jews also are arriving in large numbers.

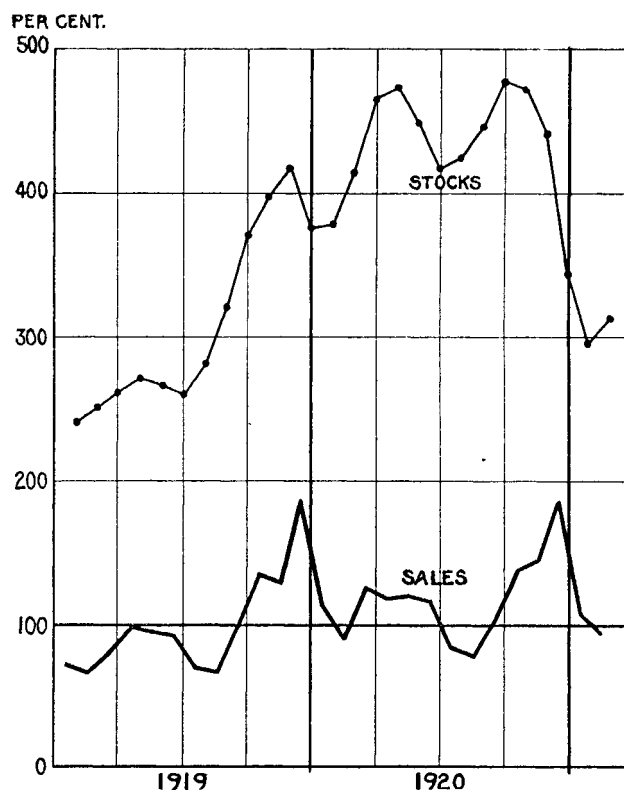
Retail Trade

Sales by department stores in cities of this district during February were about on a par with those of the same month last year, according to reports received by this bank from 25 stores. In view of the fact that average prices in department stores were lower than those of last year, the volume of merchandise distributed was considerably larger. The number of transactions shows an increase of 12.5 per cent.

The continued large volume of sales is evidence that in the cities of the district the purchasing power of the population has not as yet been greatly affected by employment or wage reductions. In Utica, Syracuse, and Rochester where there has been much unemployment, sales have been equal to those of last year. A further explanation of large sales is found in the type of purchases being made. Merchants report that sales of men's and women's apparel are running well ahead of last year's sales. Many people were deterred from purchasing new clothing last spring by high prices and now are apparently replenishing their wardrobes. Housefurnishing goods and pianos and other musical instruments are not in as great demand as last year.

Stocks held by retailers, reported by selling price, are below those of last year, but this reduction is probably accounted for by lower prices rather than by a reduction in the actual number of articles. Stocks on March 1 were larger than those held on February 1, because of the receipt of the usual shipments of spring goods. The increase during February, however, was not as large as during the corresponding month last year, because of the tendency on the part of retailers to buy only for immediate needs. Thus far department stores have not to any considerable extent contracted ahead for fall goods to be shipped late in the summer.

This month for the first time, 12 stores in this district with annual sales of more than \$130,000,000 have reported their sales and stocks on hand in terms of dollar values rather than as percentages. The accompanying diagram based on those reports gives for the entire years 1919 and 1920 and the first two months of 1921 an index of sales and of stocks on hand.



Sales and Value of Stocks of 12 Department Stores
(Average Sales for 1919 = 100 per cent.)

Business of Department Stores

Month of February, 1921

	New York City and Brooklyn	Elsewhere in Second District	Second District
Number of firms reporting.	12	14	26
Per cent. change in net sales during February, 1921, compared with net sales during February, 1920.	-1.1	+9.5	+1.0
Per cent. change in number of transactions during February, 1921, compared with the number of transactions during February, 1920 (14 firms reporting, 7 in New York)	+11.1	+17.9	+12.5
Per cent. change in net sales from January 1, 1921, to February 28, 1921, compared with net sales during corresponding period in 1920.	-4.6	+1.6	-3.5
Per cent. change in stocks at close of February, 1921, compared with stocks at close of February, 1920.	-16.5	-23.0	-17.8
Per cent. change in stocks at close of February, 1921, as compared with stocks at close of January, 1921.	+6.3	+1.3	+5.3
Percentage of average stocks at close of January and February, 1921, to net sales during those months.	323.3	350.6	328.7
Percentage of outstanding orders at close of February, 1921, to total purchases during calendar year, 1920.	7.3	7.2	7.3

Volume of Production

Current production of certain of the country's principal basic commodities is shown in the table below, which compares production figures available for the first two months of 1921 with the average production for January and February, 1919 and 1920.

Anthracite coal is the only commodity listed in which 1921 production has been ahead of that of corresponding periods in the two previous years. On the other hand in the case of only one of the eight items is current production down more than one-third from the average of the two previous years. Cotton consumption is included in the production group because the consumption of raw cotton in cotton mills is the best existing measure of the production of cotton goods. In the cases of anthracite coal, tin, cotton, and sugar, February figures in 1921 are higher than those for January.

Commodity	Per Cent. of 1921 Production to Average for First Two Months of 1919 and 1920
Anthracite coal mined.....	118
Bituminous coal mined.....	87
Wheat flour milled.....	78
Cotton consumption.....	72
Pig iron production.....	71
Steel ingot production.....	68
Sugar meltings.....	66
Tin deliveries.....	47

Cotton and Cotton Goods

Following continued liquidation by southern holders and disagreement at the London reparations conference, New York spot cotton reached 11.20 cents a pound on March 2, the lowest price since the months immediately following the outbreak of the European war and the closing of the exchanges. The market closed on March 19 at 11.55, a price nearly $1\frac{1}{2}$ cents under the 1913 average and 75 per cent. below the 1920 high point.

The decline in the price of cotton was reflected in the price of cotton goods. Standard print cloths, 64 x 60, 27 inches wide, 7.6 yards to the pound, were quoted at $4\frac{1}{4}$ cents late in March. This compares with 5 cents during February and a high mark of $16\frac{3}{4}$ cents last April. The average 1913 price was $3\frac{1}{2}$ cents. Other prices have moved in a closely similar manner.

With the continued fall of prices buyers have become reluctant to place orders and sales have been smaller than in February. The result has been further curtailment of production. Most factories resumed full-time operations following active buying in January, but as these orders are being-filled, mills in both New England and the South are either closing or running on part time. The February figures for cotton consumption show a gain over those of January, but estimates of present operation indicate lower consumption at this time.

Silks

The increased demand for silk goods, which was felt in February, has continued during March. Manufacturers of women's silk dresses were the largest purchasers, but many retail stores have placed liberal orders.

March reports show a further increase in silk production. The following table gives the percentage of maximum capacity at which 18,500 looms in Paterson, N. J., and adjacent towns have been operating since November.

November, 1920.....	18 per cent.
December, 1920.....	21 per cent.
January, 1921.....	25 per cent.
February, 1921.....	37 per cent.
March, 1921.....	49 per cent.

The increase in operations during March has been largely among the smaller plants which had been closed since fall. These are manufacturing goods for prompt shipment and few orders for delivery beyond May have been received. The larger mills are not starting idle looms, but are increasing production by running on full time rather than three or four days a week.

Imports of raw silk continue to increase and stocks in New York warehouses to diminish. The following table gives the figures in bales for the past three months:

	Imports	Stocks at End of Month
December, 1920.....	6,341	44,536
January, 1921.....	9,499	31,859
February, 1921.....	14,361	27,928

There has been a slight advance in the price of raw silk during the month. In Japan the minimum price established last fall is still maintained, although stocks are large and the Japanese Government has recently been called upon for large sums to assist in financing the industry.

Business Failures

The failure in February of several large brokerage and trading concerns caused the aggregate liabilities of business failures in the United States to reach a larger dollar amount than ever before, although the number of failures was about 13 per cent. below the January total. In the first three weeks of March the number of failures showed a still further decline.

In the Second Federal Reserve District the number of failures decreased 43 per cent. in February, but the liabilities were the largest ever reported for this district in one month. The following figures are taken from Dun's reports for this district:

Month	Number of Failures	Liabilities
November, 1920.....	281	\$10,776,972
December, 1920.....	338	21,538,235
January, 1921.....	390	9,808,623
February, 1921.....	222	26,836,505

Wool and Woolen Goods

Substantial buying of woolen goods for next fall took place during March. Soon after new fall materials were put on display, some of the mills manufacturing popular weaves announced that the output had been sold and that lines had been withdrawn. This large volume of buying was attributed to a real need for woolen goods on the part of clothing manufacturers and also to an anticipated advance in the prices, because of the possibility of a higher tariff on raw wool. Present prices are 40 to 50 per cent. below those quoted a year ago.

Increased buying in the past two months has resulted in lessened inactivity in manufacturing centers. The Bureau of Census reports that on February 1, 60 per cent. of all machinery was idle, in terms of loom hours, as compared with nearly 68 per cent. on January 1. Current estimates for the months of February and March indicate a much smaller proportion of idleness.

The increase in production has had no large effect on the raw wool markets. Mill owners are buying for immediate needs only. It is estimated that only 15 per cent. of last year's clip, pooled by the growers in middle western and western states, has been sold, and there are large surpluses in England, Australia, and South America. The War Department has again postponed the auction sale of 6,000,000 pounds of government-owned raw wool.

Iron and Steel

The rate of steel production in the latter part of March fell below 35 per cent. of the industry's capacity. Independent companies were operating at not more than 15 per cent. of capacity, and the United States Steel Corporation at about 45 per cent.

While the Steel Corporation had unfilled orders on February 28 for about 7,000,000 tons, these orders were not evenly distributed among its different plants and a number of blast furnaces have been closed in the past few weeks. New orders are being received at the rate of slightly more than 25 per cent. of capacity. Several independent companies have been able recently to increase the number of active furnaces, as the reduction of prices made six weeks ago brought a fair volume of both domestic and foreign business. The demand for tin plate, pipe, and wire products, particularly, has increased, and the prices on several items have again advanced slightly.

Prices quoted by independents are, on the average, about 15 per cent. below those of the Steel Corporation, which has not announced any departure from the schedule of prices maintained for over two years. The independent companies have cut wages 15 to 25 per cent. and as old

contracts for coke expire, are placing new orders at \$4 to \$5 per ton as compared with maximum prices of \$15 to \$18 in 1920. Contracts for the delivery of ore after the Great Lakes open for traffic early in April, are being made at considerably lower prices than in 1920.

Railroads and Transportation

Freight car loadings throughout the country in February were at about the same low rate as in January; but preliminary reports for the first three weeks in March indicate that traffic has grown somewhat heavier. Better weather conditions in the middle west have permitted an increased movement of grain, and a larger less-than-carload movement is reported on eastern roads.

Shipments of bituminous coal which ordinarily are a considerable proportion of all freight traffic, are extremely small, largely as a result of curtailed buying in expectation of price reductions. The anthracite movement on the other hand has been greater than during the corresponding period in 1920.

It is reported from railroads terminating at New York that the rapid decline in operations in the past four months has, in all likelihood, been accelerated by an increasing use of the Panama Canal for coast to coast traffic. In the early part of 1920 railroad congestion became so great that two months or more were often required to carry goods from San Francisco to New York as compared with 14 to 25 days under normal conditions. Ocean carriers can make similar delivery in 18 to 26 days, and with an increasing number of ships available, there have been regular shipments of lumber and of some other products from the west to the east coast through the canal. Although the railroads can now handle this freight somewhat more quickly than ocean carriers, the increase in rail freight rates has so widened the difference in shipping costs that the ocean carrier continues to be used for many commodities.

Building

The value of building contracts awarded during February in New York State and Northern New Jersey was about the same as in January. Buildings for residential purposes made up 48 per cent. of the aggregate as compared with 40 per cent. in January and a 1920 monthly average of 22 per cent., according to the F. W. Dodge Company reports. Only 7 per cent. of all contracts awarded in February were for industrial plants as compared with 28 per cent. in the preceding month. Increased residential construction has been fostered by lower cost of materials, tax exemptions, and mortgage loans by insurance companies on individual houses.

The Discount Market and the Reserve Bank

DURING the past twelve months the discount market has broadened very rapidly. It has become much less dependent upon the support of the Federal Reserve Banks, and an increasing number of bankers, corporations, and individuals now look to it for the short time investment of their surplus funds.

For many years there have existed in London and other European financial centers what are known as discount markets, where drafts drawn by dealers in goods to finance the shipment of goods are bought and sold. These drafts, in the main, are drawn not upon the purchasers of goods, but upon banks and bankers. One of the parties to the transaction arranges with his banker to extend credit for his account by accepting the draft which the transaction involves, payable in 60 or 90 days or longer. The banker receives a small commission for accepting the draft, and when so accepted it becomes the direct obligation of the banker, payable at a specific date. In doing so the banker does not, however, lend any funds, he merely lends his credit, as expressed in his agreement to pay the draft when due. On the strength of this, the owner of the draft sells it through one of the houses dealing in the discount market and thus obtains the money it represents. The difference between a draft drawn on a bank and a draft drawn on the purchaser of goods is the difference between the bankers acceptance and the trade acceptance, and the two should not be confused.

In the United States, bankers did not begin to accept such drafts until the Federal Reserve Act gave the National banks permission to do so. Accepting by banks and bankers began in 1915 and has been steadily increasing in volume, until there are now about \$1,000,000,000 of bankers acceptances in existence, practically all created to finance exports and imports, or the movement of goods within the United States. But as these accepted drafts do not represent the loan of funds by the banks which accept them, business could not be financed by means of them unless there were purchasers for them at all times. It is the increasing number of purchasers of these bankers acceptances, or "bills" as they are called, which has especially characterized the development of the discount market in the United States during the past year. The call money market has for years been the only medium for the employment of funds which might have to be recalled at any time. But the discount market has now won general recognition as a medium through which such funds may be employed, not in carrying stocks and bonds, but in bills drawn to finance the movement of staple commodities. Such bills may be instantly converted into cash in the discount market or they may be rediscounted with the Reserve Bank, a recourse not available to loans on securities.

The Federal Reserve Bank of New York, with the assistance of several of the other Federal Reserve Banks, has been greatly interested in the development of the discount market, as to both the volume of bills created and the power to purchase them when accepted. It has at all times been ready to purchase such bills as could not be disposed of through the discount market. And until recently the discount market has been very dependent upon the Federal Reserve Banks, as will be seen from the following table showing, at various dates, the percentage of the total bills outstanding which they have had to purchase.

Date	1 Owned by Reserve Bank New York	2 Owned by All Reserve Banks	3 Estimated Amount Outstanding	Per Cent. of Column 2 to Column 3
Dec. 31, 1916	\$ 41,457,000	\$127,497,000	\$ 250,000,000	51.0
Dec. 31, 1917	148,125,000	275,366,000	450,000,000	61.2
Dec. 31, 1918	69,323,000	303,673,000	750,000,000	40.5
Dec. 31, 1919	191,312,000	585,212,000	1,000,000,000	58.5
Dec. 31, 1920	109,902,000	255,702,000	1,000,000,000	25.6
Mar. 25, 1921	39,386,000	123,056,000	1,000,000,000	12.3

The American discount market affords an economical method of financing our foreign trade and relieves our exporters and importers from depending on discount markets in other countries for the credits they require. It also conserves for American banks the commissions which formerly were paid to bankers in other countries. But the special reason why the Federal Reserve Bank is interested in the discount market is that it brings into existence and establishes the instant convertibility of a banking instrument which is recognized the world over as the safest and most liquid investment for bank and other funds seeking short time employment. With a large volume of bills being constantly drawn, accepted, sold and paid, the discount market provides a medium through which rates of interest, as reflected in the discount rates of the Federal Reserve Banks, may be instrumental in drawing foreign funds to the United States when rates are high and credit is scarce, or in stimulating a withdrawal of such funds when rates are low and credit is superabundant.

In London, in normal times, a rise in rates to a level higher than that prevailing in other financial centers drew bank funds to London for investment in bills, thereby satisfying the demand for credit which brought about the higher rate. When rates in London fell below those of other financial centers foreign funds were apt to be withdrawn, thereby tending to reduce the overabundant credit. In the United States, until the last five years, there has been neither a bill nor a discount market, and when severe credit pressure developed, special and sometimes costly arrangements have been necessary to attract foreign funds to this country. But with a discount market well established and supported by the Reserve Banks, and with the export of gold unrestricted, already a considerable volume of foreign funds has been attracted. When international finances become more normal, foreign funds should flow in and out of the United States as freely as they used to flow in and out of London through the London discount market. Reference has already been made to the free flow of funds between different sections of the United States through the medium of the Federal Reserve System. The free flow of funds between the United States and other countries is fully as important to the stability of our credit. Such a flow is not possible except through the medium of a discount market in which foreign funds will seek investment whenever the rates are favorable. It is only through a large and steady discount market that the Reserve Banks may assist in stabilizing credit between the United States and foreign countries, as they now effectually stabilize credit between different sections of this country.

If further information is desired with regard to any phase of this subject, the officers of the Federal Reserve Bank of New York will be glad to endeavor to supply it.