MONTHLY REVIEW
of Credit and Business Conditions
Second Federal Reserve District

Federal Reserve Agent | *Federal Reserve Bank, New York* | *August 1, 1931*

Money Market in July

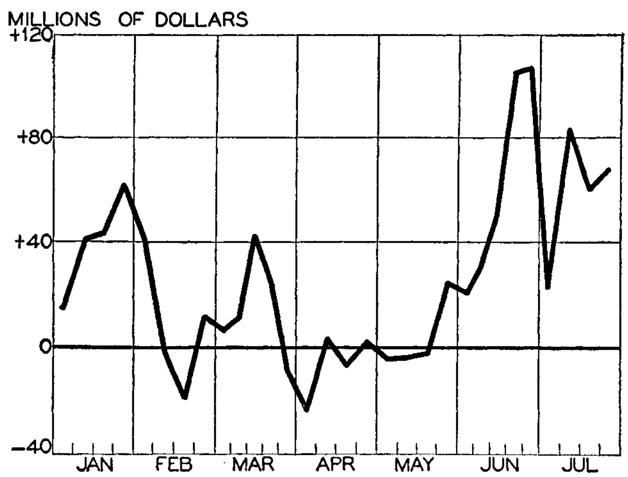
The financial disturbance abroad was the dominating influence upon the New York money market during the past month, and made itself felt in wide fluctuations in a number of foreign exchange rates, in substantial declines in foreign bond quotations, sympathetic declines in prices of domestic securities, and, more generally, in a sentiment of caution and conservatism.

The rapid increase in the country's stock of monetary gold which in large part was a reflection of the flow of funds out of Germany and which amounted to more than $150,000,000 in June, ceased in the second week of July simultaneously with the promulgation in Germany of the emergency decrees. For the balance of the month moderate gold imports from the Argentine and Canada were more than offset by increases in the amount of gold held under earmark for foreign account. While the exchanges of both Germany and England declined below the points at which it is profitable for gold to be moved from those two centers to the United States, no gold was so moved. In the case of Germany, shipments were prevented by the restrictive measures in force in that country, though late in the month a shipment of $11,000,000 was reported to be en route. In the case of England no shipments were made; the absence of gold movements was due to the unwillingness of financial institutions to take advantage of a temporary weakness in the situation. On one occasion the French franc reached a point at which it might have been profitable to move gold from this country to Paris, but again in this case no actual gold movement took place. In the last week of the month sterling exchange strengthened to a point somewhat above the gold import point.

The effects of developments abroad upon the market for foreign bonds are indicated by the following quotations for certain typical issues. There are included in the list a number of the bonds of South American countries in which political disturbances have been added to previously existing economic difficulties.

Issue	Closing prices July 3	Closing prices July 29
German Government 5½'s, 1965	75	57¾
German Government 7's, 1949	100	84¼
Prussia 6's, 1952	76⅝	50
Argentine 6's, 1957	90	73¾
Brazil 8's, 1941	80½	66
Chile 6's, 1963	59	38
Baker, Kellogg & Company Average of 40 foreign bonds	90.58	83.45

Sympathetically with the decline in prices of foreign bonds, domestic bonds showed some weakness and stock prices reacted to the lowest level since the middle of June. The weakness in bond prices reflected in part a continued and even accentuated tendency for banks to seek to maintain the most liquid possible position. This tendency is indicated by the nature of the employment of funds in these banks in recent weeks. For the past two months the member banks in principal cities have held reserves substantially in excess of the amounts they are required by law to maintain. This excess has been larger and more continuously present than at any time since the depression began. In ordinary times banks seek to employ promptly any excess of reserves beyond legal requirements. During recent weeks, however, the reporting member banks in principal cities have as a whole decreased their total loans and investments despite large excess reserves. This decrease is due to reductions in their less liquid assets, namely their loans on securities and their holdings of securities other than Government's. On the other hand they increased their holdings of bankers acceptances which are included in the reported item of "All other loans" and their holdings of United States Government securities. As between New York City and other centers New York City banks are responsible for the entire increase in these two items,



Excess or Deficit of Reserves held by 19 New York City Banks at the Federal Reserve Bank, After Deducting Borrowings from the Reserve Bank (Weekly averages of daily figures)

whereas the out-of-town banks show decreases in all classifications of their assets as indicated in the following table.

Weekly Reporting Banks—figures in millions of dollars

	Change from June 24 to July 22		
	N. Y. City	Other cities	Total
Loans			
On securities	—79	—54	—133
All other	+144	—24	+120
Investments			
U. S. Government securities	+66	—59	+7
Other securities	—40	—13	—53
Total	+91	—150	—59

This present conservative attitude of the banks and their desire to maintain their funds in an exceedingly liquid form operates as a limitation to the putting into active use of additional funds which become available.

Due in considerable part to the large amount of surplus reserves held by the New York City banks, the end of the half year, which is usually a period of extra demand for funds and at times some slight stringency in the money market, passed without any stringency. The banks were in an exceedingly comfortable position, not only over the end of the month but also over the Fourth of July holiday, and the extra demands for these occasions, together with all the unusual movements of funds reflecting the European situation, had but little influence on money rates, the changes in which in the past month are shown in the following table.

Money Rates at New York

	July 31, 1930	June 30, 1931	July 31, 1931
Stock Exchange call loans	2	1½	1½
Stock Exchange 90 day loans	††2½-2¾	1½	††1¼-1½
Prime commercial paper	3-3¼	2	2
Bills—90 day unindorsed	1⅞	⅞	⅞
Customers' rates on commercial loans	†4.11	†3.46	†3.58
Treasury certificates			
Maturing December 15 (yield)	1.63	.63	.42
Maturing March 15 (yield)	.....	.66	.47
Federal Reserve Bank of New York rediscount rate	2½	1½	1½
Federal Reserve Bank of New York buying rate for 90 day indorsed bills	‡2	1	1

††Nominal †Average rate of leading banks at middle of month
‡1-75 days—1⅞ per cent

Bill Market

In the first week of July, a period that included the mid-year and holiday requirements for funds, the discount market was quiet with dealers' purchases of bills slightly in excess of their sales. The second week of July, however, was a period of heavy buying by the New York banks, apparently in an effort to utilize excess reserves which were accumulating at that time, and, as the supply of bills offered to the market was not large, the amount of dealers' holdings was reduced nearly one-half. Although the bill market became less active subsequently, dealers' portfolios declined somewhat further in the third week of July to the smallest volume since mid-March, after which there was little change in their holdings, accompanying rather quiet conditions in the market.

Throughout the month of July, few bills were offered to the Reserve Bank, in view of the investment demand on the part of the commercial banks which not only took the form of purchases from the dealers but was also reflected in the withholding of newly created bills from the discount market. The total bill holdings of the Reserve Banks consequently declined from $103,000,000 on July 1 to $67,000,000 on the 29th, and the decline in holdings of domestic bills alone was even larger than is indicated by the figures for total bill holdings, which include purchases of bills drawn in foreign currencies, largely those acquired in connection with the utilization of the $25,000,000 credit to the Reichsbank that was announced last month. In addition, the amount of bills held by the Federal Reserve Banks for account of foreign correspondents showed a net reduction of $81,000,000 during July, following a smaller decrease in the second half of June.

As a reflection of the strong investment demand for bills from domestic sources, the report of the American Acceptance Council showed that the group of accepting banks and banking institutions, which report their outstandings to the Council, held in their own portfolios on June 30 $89,000,000 more bills than a month earlier, and that their total holdings at $554,000,000 were only slightly below the previous high figure of January of this year. The total amount of acceptances outstanding, however, showed a reduction of $44,000,000 to $1,368,000,000 on June 30. Small decreases occurred in all the principal classes of acceptances, but the total continued to be larger than at the corresponding period of last year.

Commercial Paper Market

As for many months past, the bank investment demand for open market commercial paper considerably exceeded the supply of high grade paper that came into dealers' lists as a result of the borrowings of commercial and industrial concerns. Dealers generally reported a rapid turnover of prime material, but indicated that sales volume was in limited amount because of the dearth of new drawings. Despite these conditions the prevailing rate for the usual grade of prime paper continued to be 2 per cent. There were, however, some sales made at 1¾ per cent, whenever blocks of particularly high grade paper became available.

According to reports to this bank from 20 dealers, the volume of commercial paper outstanding declined 4½ per cent further between the end of May and the end of June. Outstandings of $292,000,000 on June 30 were 45 per cent under those of a year ago.

Banking and Credit in Germany

Developments in the domestic money market during July were overshadowed by happenings abroad, more particularly in Germany. The temporary lull in Germany's financial difficulties, which followed upon the announcement of President Hoover's proposal on June 20 that payments of principal and interest on all intergovernmental debts, including reparations, be suspended for one year, was succeeded by a renewed outward movement of funds from that country, representing a further loss of confidence, both at home and abroad, in its economic and budgetary position. Between June 23 and July 15 the Reichsbank's gold stock and foreign exchange reserve declined by about $3,300,000, notwithstanding the fact that during this period a central bank credit of approximately $100,000,000 was made available, directly, and an American private bank credit of $50,000,000 was made available, indirectly, to the Reichsbank.

The rapid depletion of Germany's liquid banking resources during June and July made critical a situation which had never fully recovered from the lesser crisis of October 1930. The gold and foreign exchange reserve of the Reichsbank, which stood at $700,000,000 on September 15, 1930, was only $613,000,000 at the end of May 1931, and the precipitous decline from that point until mid-July reduced the central bank's reserve by $258,000,000 or about 42%. This movement was tantamount to a run on the German banking system and placed that system in the impossible position of being called to meet, upon demand, many obligations which ordinarily would have been in effect, deferred liabilities. Nor could German industry adjust itself overnight to the contraction in the supply of available credit which follows upon such a diminution of banking resources. The seriousness of the crisis and the extent of Germany's loss of funds was emphasized on July 13 when one of the largest banks in Berlin was forced to close its doors, and on July 15 when the Reichsbank's reserve of gold and foreign exchange held against its note circulation fell below the ordinary legal minimum of 40 per cent to 35.8 per cent. Prevention of a complete breakdown, when undertaken at this point, required stringent conservation measures at home, to the end that confidence might be restored, and enlightened action upon the part of Germany's foreign creditors, to the end that those economic activities which would ultimately provide for the liquidation of credits extended to German business and industry could proceed with as little disturbance as possible.

The German Government and the Reichsbank acted within the framework of this general program. The Government, by presidential decree, promulgated various restrictive measures affecting banking and foreign exchange operations and trading on the security exchanges. July 14 and 15 were made official bank holidays and subsequently all banks, but the Reichsbank, the so-called private banks of issue, and the Gold Discount Bank, were restricted in their operations to a limited class of business including, chiefly, delivery of cash and transfers of funds to meet wages, salaries, taxes, unemployment aid, and social welfare payments. These restrictive measures were progressively modified but not eliminated during the remainder of the month. Control of all foreign exchange operations was placed in the hands of the Reichsbank which, on its part, advanced its discount rate from 7 to 10 per cent and then to 15 per cent and its rate for loans on securities from 8 to 15 per cent and then 20 per cent. The principal business and industrial concerns of Germany, with a view of securing the continuance of foreign short-term credits, offered to provide 500,000,000 reichsmarks (approximately $119,000,000) as a deficiency guarantee of credit transactions entered into by the Gold Discount Bank. This offer was accepted and officially sanctioned by governmental decree.

Germany's foreign creditors also mobilized for her assistance in the chief creditor countries. In the United States the Federal Reserve Bank of New York announced, on July 14, that it had, in association with other Federal Reserve Banks, and with the approval of the Federal Reserve Board, agreed to renew its participation—approximately $25,000,000—in the outstanding $100,000,000 central bank credit to the Reichsbank, originally announced on June 25. On July 16, the bankers of the City of New York were able to reach an informal voluntary agreement upon a uniform course of action with regard to their business with their respective German clients, and this agreement was supported in several other cities of the country. These informal and day-to-day understandings provide, for the present, that German checks and cable orders will be honored to the extent of German credit balances, and that acceptance lines then outstanding and in use and time deposits, advances and loans in Germany will be maintained at about their then existing amount. In this connection it is important to note that these informal agreements, to a considerable degree, merely extended an already existing situation. Figures available to this bank indicate that short-term credits extended to German clients by banks and bankers in this country were substantially maintained during the month of June, and only slightly less inclusive figures covering banks in New York City show a small increase in the amount of such credits during the first half of July.

The combined result of the measures of control and relief taken within and without Germany during this period was a modest improvement in that country's current international position, the previous rapid outflow of funds being practically stopped. From July 15 to July 23 the Reichsbank's reserve of gold and foreign exchange increased by approximately $5,000,000. At the same time, however, German business suffered severely from credit and banking restrictions, emphasizing the emergency character of the internal measures adopted to meet the crisis.

The credit situation in Germany was a matter of governmental as well as banking concern during the month, and in the week of July 20 a conference of representatives of Belgium, France, Germany, Great Britain, Italy, Japan, and the United States met in London to discuss the problem. The conclusions of the conference were, in general, along the lines of the actions already taken by the central banks and the private banks of the various countries. In addition, the Government representatives recommended that the Bank for International Settlements should be invited to set up a committee of representatives nominated by the governors of the interested central banks to inquire into the immediate further credit needs of Germany and to study the possibilities of converting a portion of Germany's short-term credits into long-term credits. The conference characterized recent withdrawals of capital from Germany as excessive and stated that they were caused by a lack of confidence which is not justified by the economic and budgetary situation of the country.

Central Bank Rate Changes

In addition to the advances in the Reichsbank rate previously discussed, seven other European central banks raised their discount rates during July. Following net sales of gold for export equal to $75,000,000 in the week ended July 22, the Bank of England raised its rate effective July 23 from 2½ to 3½ per cent. The previous rate had been in force since May 14, at which time it had been lowered from the 3 per cent rate fixed on May 1, 1930. A further increase to 4½ per cent was made effective on July 30, following an additional loss of $85,000,000 of gold during the previous week.

On July 23 the Austrian National Bank rate was raised from 7½ to 10 per cent, following two increases in June which had brought the discount rate up from 5 to 7½ per cent. On the 24th the rate of the Hungarian National Bank, which had moved from 5½ to 7 per cent in June, was raised from 7 to 9 per cent. On the 20th the rate of the National Bank of Yugoslavia was increased from 6½ to 7½ per cent, the earlier rate having been in force since June 29. The Bank of Danzig raised its rate three times in July: from 5 to 6 per cent on the 13th, to 7 per cent on the 17th, and finally to 10 per cent on the 28th.

Effective July 31, the discount rate of the Sveriges Riksbank (Swedish State Bank) was raised from 3 to 4 per cent. The lower rate had been in force since February 6, 1931.

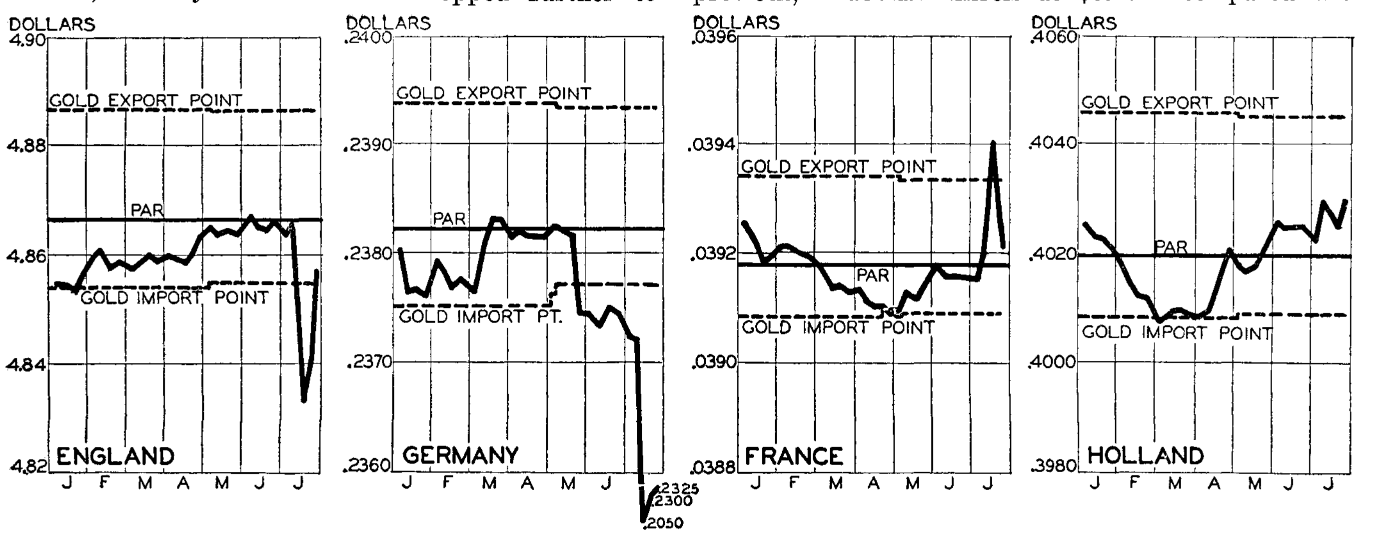
The discount rate of the Bank of Spain, which had stood at 6 per cent since July 17, 1930, was raised to 6½ per cent, presumably effective July 8.

Foreign Exchange

During the first part of July the European exchanges were steady and, except for the reichsmark, showed a firm tendency. On the 13th, however, the pound sterling broke suddenly to $4.86, after closing at $4.86 21/32 on the 11th, and by the 15th had dropped further to $4.83¼, or considerably below the estimated gold import point to this country, but no gold was taken for shipment from London for New York. All the major European currencies accompanied this movement except French and Swiss francs, the former advancing to $0.0394, or above the gold export point, and the latter to $0.1942 on the 15th, compared with $0.03925⁄8 and $0.1941 on the previous day. Reichsmarks, which had been below the incoming gold point since the last week in May and had closed at $0.2369 on July 11, broke to nominal quotations of $0.22 on the 13th and as low as $0.2050 on the 15th. Trading in this currency has been practically suspended in New York since July 12 and trading in the Berlin foreign exchange market has been under the control of the Reichsbank officially since July 15. Between the 11th and the 15th, belgas dropped from $0.1397 to $0.1394, guilders from $0.4029¾ to $0.4027½, lire from $0.0523 9/16 to $0.0521 3/16, and Swedish crowns from $0.2682 to $0.2672.

Immediately after the 15th sterling strengthened, French francs declined to about their earlier level, and other Europeans moved irregularly. On the 24th when sterling rose nearly one cent to close at $4.85⅜, following the first 1 per cent advance in the Bank of England discount rate, there was a general strengthening in the list. On the 30th, following the second advance in the Bank of England rate, sterling rose to $4.86⅛. On that date belgas were quoted at $0.1396, guilders $0.4032, lire $0.0523¼, Swedish crowns $0.2675, and Swiss francs $0.1950. Reichsmarks toward the end of the month were quoted nominally at 23.50 cents, as compared with the mid-month low of 20.50 cents. French francs tended to decline during the latter part of July and sold at $0.0392⅜ on the 30th.

Japanese yen showed little change during July, though quotations in the second half of the month were slightly lower than in the first half. The weak tendency of the South American exchanges which became evident toward the end of the second week of July was accentuated in the third week, and Argentine pesos sold at $0.6969 on the 15th compared with $0.7262 a week previous, Brazilian milreis at $0.0700 compared with



Movements of Foreign Exchange Quotations at New York

$0.0750, and Uruguayan pesos at $0.5630 compared with $0.5858. During the latter half of the month Argentine pesos weakened further to $0.6700, milreis declined to $0.0690, and Uruguayan pesos to $0.4500.

Canadian dollars were continuously at a discount in July, moving erratically between $0.9981 and $0.9953, or below the import point to this country. The Hong Kong dollar declined from $0.25¾ on July 1 to $0.24⅝ on the 28th and the Shanghai tael from $0.32⅝ to $0.30¾.

Gold Movement

Gold movements at New York during July were much smaller than in the previous month. The principal imports were $8,250,000 from Argentina, $2,000,000 from Peru, and $2,000,000 from Canada. In addition to these imports, the receipt at San Francisco of $1,250,000 from Japan and $1,500,000 from China was reported. These gains of gold were more than offset by an export of $1,000,000 from New York to Italy and by a net increase of $29,700,000 in the amount of gold held under earmark for foreign account. A preliminary estimate indicates that there has been a net loss to the country's monetary gold stock during July of about $8,000,000, the first monthly reduction in the gold stock since August 1930. Consequently, the net gain of gold for the elapsed part of the year stands at about $355,000,000.

Of particular interest abroad during July were the heavy withdrawals of gold from the Bank of England, the net loss amounting to over $150,000,000. Beginning on July 13th and continuing almost daily a total of over $175,000,000 in bars was withdrawn, mainly for shipment to France, with Belgium, Holland, and Switzerland also participating. In addition to these losses a total of over $30,000,000 in sovereigns was withdrawn for export or "set aside." Receipts at the Bank of England during July totaled about $40,000,000, of which $15,000,000 in sovereigns was reported to have been received from Argentina, Australia, and South Africa; $7,500,000 was obtained in the market; and $13,750,000 in sovereigns was released from earmark. The bulk of the gold offered in the market, amounting to $15,000,000, was obtained by France. During July, the Reichsbank also lost over $27,000,000 of gold, which was taken mainly for export to France, Holland, Switzerland, and the United States. This includes $11,000,000 which was withdrawn from the Reichsbank for shipment to the United States late in the month and is due to arrive in New York on or about August 1st. A shipment of $4,800,000 was received at Berlin from Russia.

Security Markets

Following the strong recovery in the stock market during the greater part of June, stock prices reacted in the first half of July, and the Standard Statistics combined average of ninety selected stocks declined about 11 per cent, losing approximately one-half of the ground gained during the June recovery. Average prices remained, however, about 13 per cent above the early June low. As between industrials, rails, and utilities, the declines were unusually uniform, ranging between 10 and 12 per cent, and all three groups remained 13 or 14 per cent above the low of June 2. During the second half of July, prices fluctuated irregularly, and showed little net change from the levels of the middle of the month.

Trading was in generally small volume throughout the month. On the most active day, sales totaled 3,000,000 shares, and on the dullest full day totaled only 600,000 shares, which was reported to be the smallest turnover for any five hour session since October 1924. On several other days, trading totaled only 700,000 or 800,000 shares.

Domestic corporation bonds advanced further in the early part of July, and at the highest point the various price averages were between 1½ and 4 points above the lowest levels reached early in June. Accompanying disturbed conditions abroad, however, domestic corporation bonds declined subsequently, and by the close of the month price averages were ½ to 1¼ points below the highest levels attained earlier in the month, despite some intermittent signs of strength.

Foreign bonds also continued to advance in the first few days of July, and an average of the prices of forty representative issues reached a level nearly 6 points above the June 2 low. Subsequently, however, the foreign list turned extremely weak due to the financial difficulties in Germany and political disturbances in South America. Bonds of German origin broke drastically, in a number of instances declining more than 20 points, and other foreign issues, particularly South American bonds, also were unsettled. The average of 40 issues showed a loss of 7¼ points from the level attained early in the month, and reached a lower level than for any time since the beginning of 1925, the period for which the data are available.

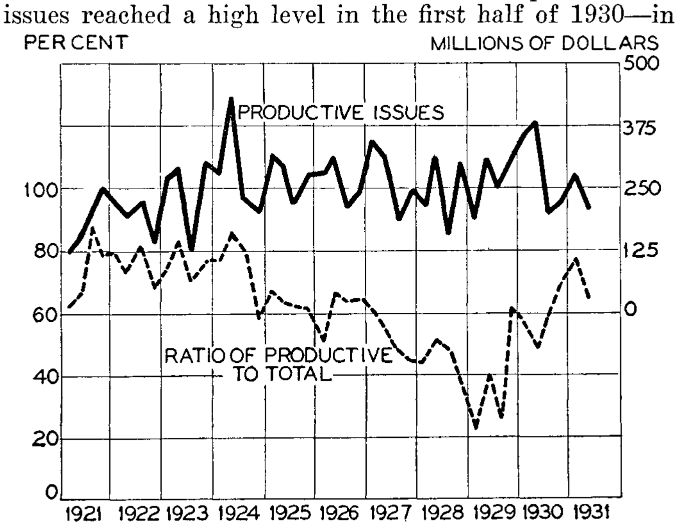
United States Government bonds firmed slightly in the first part of July, rising a little less than ¼ of a point. Subsequently throughout the entire period of sharpest fluctuations in domestic corporation and foreign bonds, United States Government's were generally steady, but toward the end of the month declined about ¼ point, and closed slightly lower than at the end of June.

New Financing

The amount of new securities publicly offered during July was below the volume of the previous month and also considerably less than the flotations of July 1930. Some seasonal falling off in new security offerings usually occurs between June and July, but it appears that flotations this July were retarded by the reactionary tendencies in the security markets and the general feeling of hesitancy which attended the disturbed conditions in Europe. The largest part of the month's total represented public utility issues, several of which were one-year note issues floated at unusually low rates of interest. Most of the remainder of the month's financing represented comparatively small State and municipal issues and a $15,000,000 Federal Intermediate Credit Bank debenture issue. Foreign financing was limited to small Canadian offerings.

Offerings of stocks and bonds, both for domestic and foreign account, and for refunding as well as new capital purposes, during the first half of 1931 amounted to $3,040,000,000, as compared with $2,530,000,000 in the second half of 1930 and $5,070,000,000 in the first six months of 1930. Foreign security flotations for new capital purposes during the first six months of 1931 aggregated only $229,000,000, as compared with $271,000,000 in the second half of last year and with $752,000,000 in the first half of 1930. New capital flotations for domestic borrowers were somewhat larger than in the latter half of 1930, but were substantially smaller than in the first half of last year.

The period during which new security flotations have been restricted by general business and security market conditions has now extended for nearly a year. During this period there has been a notable change in the character of new issues, which is illustrated by the accompanying diagram, based on data compiled by Moody's Investors Service. This diagram shows for each quarter of 1921-1931 the average monthly amount of "productive" issues put out by domestic corporations, States, and municipalities, and the ratio to total domestic new capital issues. "Productive" issues include those whose purpose is clearly the obtaining of new capital which will be used, directly or indirectly, for construction or improvement of plant or equipment, or for construction of buildings or engineering projects; new capital issues not classified as "productive" include those whose purpose is the acquisition of other companies or to provide funds for investment purposes, and issues to provide working capital. Refunding issues are excluded throughout. It appears from these figures that while the amount of "productive" issues recently has not been particularly heavy, it has constituted a large proportion of total new capital issues; in recent quarterly periods the average monthly amount of "productive" issues has been between 60 and 80 per cent of the total, as against little more than 20 per cent during part of 1929, when security issues were much increased by "non-productive" issues of the investment trust type. It will be seen from the chart that, after declining from 1924 to 1929, the ratio of productive issues has been rising, and recently has reached the highest level since 1924. The actual volume of "productive" issues reached a high level in the first half of 1930—in fact, a higher total than for any time since the second quarter of 1924—and even during the reduced flotations of the second half of 1930 and the first half of 1931 the volume has remained somewhat above the low points of 1927-1929.



Average Monthly Amount of Productive Security Issues Floated Each Quarter of 1921-1931, Together with Ratio to Total New Capital Issues (Based on Moody's Investors Service figures)

Building

The value of building contracts awarded during June in 37 States was 8 per cent larger than the preceding month's total, according to the F. W. Dodge Corporation report, but showed a large reduction from the total of June 1930, which included an unusually heavy volume of contracts for public works and utilities. The increase from May to June was entirely due to an increase in contracts for public works and utilities.

In the first three weeks of July, the average daily amount of building contracts awarded was reduced somewhat more than seasonally from the June level. This drop was accounted for solely by a sharp reduction in public works and utilities, as residential and other non-residential contracts were well maintained.

Contracts awarded in Metropolitan New York and vicinity during the completed six months of this year showed a 20 per cent reduction from a year ago, a smaller decrease than was indicated for the whole reporting area of 37 States. Residential building contracts were 39 per cent larger than in 1930 in this district—the only important district east of the Rocky Mountains to show a gain. The increase in residential activity, however, was more than counterbalanced by reductions of 20 per cent in public works and utility projects and of 52 per cent in other non-residential work.

Production

Further curtailment of industrial production has been reported in July, at least part of which, however, has been of a seasonal nature. Activity in the steel industry declined steadily through the third week of the month when the Iron Age operating ratio was estimated at 30 per cent of theoretical capacity, as compared with 36 per cent toward the close of June, but the report for the last week of July showed an increase in the ratio to 32 per cent. Further seasonal contraction was reported in the automobile industry, and cotton goods production averaged somewhat lower than in June, but the output of crude petroleum and of bituminous coal was somewhat higher.

The decline in productive activity during June proved to have exceeded the average seasonal reduction of past years, and the preliminary index of industrial output of the Federal Reserve Board dropped 3 points further to 86 per cent of the 1923-1925 average, and was only 4 points above the December low. Steel ingot and pig iron production showed declines of 17 and 15 per cent, respectively, from the May levels, or substantially more than ordinarily occurs; output of lead dropped 20 per cent, and production of zinc declined somewhat more than usually. Output of crude petroleum showed a moderate increase, but production of anthracite coal declined more than seasonally, and coke production was also curtailed; production of bituminous coal was little changed from the May level as a result of a substantial increase in mining activity toward the end of the month. Production both of passenger automobiles and of motor trucks showed more than the usual reduction in June. Among the textiles, wool mill activity increased, but mill consumption of raw cotton showed about the usual June decline, and a reduction of considerably more than seasonal proportions occurred in mill consumption of silk. Declines were shown also by this bank's indexes of production of wheat flour, tobacco products, and boots and shoes, and of slaughterings of livestock.

(Adjusted for seasonal variations and usual year-to-year growth)

	1930	1931		
	June	April	May	June
Metals				
Pig iron	100	64	64	56
Steel ingots	101	66	65	58
Copper, U. S. mines	81	64	63	63*p*
Lead	90	62	66	53
Zinc	78	50	43	41
Tin deliveries	86	84	86	73
Automobiles				
Passenger cars	76	65	65	50*p*
Motor trucks	87	79	76	72*p*
Fuels				
Bituminous coal	96	83	79	80
Anthracite coal	81	90	77	70
Coke	99	72	71	65
Petroleum, crude	95	87	87	86
Petroleum products	92	81	82	80
Textiles and Leather Products				
Cotton consumption	73	82	79	78
Wool mill activity	80	74	85	89
Silk consumption	64	84	92	79
Leather, sole	104	89	82	83*p*
Boots and shoes	87	110	113*p*	97*p*
Foods and Tobacco Products				
Live stock slaughtered	92	99	92	84
Wheat flour	102	91	83*r*	81
Sugar meltings, U. S. ports	74	71	65	69
Tobacco products	107	98	100	97
Miscellaneous				
Cement	118	87	92	93
Tires	81	70	80	
Printing activity	94	85	84	
Paper, newsprint	96	89	88	88*p*
Paper, other than newsprint	91	84*p*	84*p*	
Wood pulp	98	78	78*p*	

p Preliminary *r* Revised

Employment and Wages

Factory employment for the country as a whole declined 2 per cent more than seasonally in June, following movements from January to May that were largely seasonal in nature. In reporting New York State factories, the number of workers showed a reduction of 3 per cent, the largest May to June decline since the compilation of these figures was begun in 1914.

Factory payrolls showed even larger reductions than factory employment, and in New York State average weekly earnings dropped 62 cents to $26.34, the lowest figure since early in 1923. During the past year and a half, factory payrolls have declined 31 per cent and average weekly earnings have declined about 11 per cent. During the same period the cost of living index of the Bureau of Labor Statistics has declined 13 per cent. From these comparisons, it appears that the purchasing power of the average worker who has retained his employment has not changed materially during the past year and a half, even though he may not have had full-time employment, but that the purchasing power of factory employees as a group has been considerably reduced by unemployment, despite the reduction in the cost of living.

According to the United States Employment Service, out-of-door employment continued to show seasonal improvement during June. Despite the increase in agricultural employment, however, the supply of farm labor, according to the Department of Agriculture, greatly exceeded the demand on July 1, and wages paid to hired workers reached the lowest level recorded in the past fifteen years.

The ratio of orders for workers to applications for employment at New York State employment offices declined during June, and this downward tendency continued in July. A small decline was also shown in the rate of voluntary labor turnover in June, and lay-offs were almost as numerous as last July and August.

Indexes of Business Activity

This bank's indexes of business activity showed no consistent change in June. On the side of further recession, freight car loadings declined slightly from the May level, whereas ordinarily little change takes place in loadings of merchandise and miscellaneous freight, and a seasonal increase occurs in loadings of bulk materials. On the other hand, average daily department store sales in this district rose 4 per cent from the May level, or more than the usual seasonal movement, and the number of new corporations chartered in New York State did not show the usual seasonal decline. In addition, there occurred a marked reduction in the number of business firms that failed in June; failures were below the corresponding month of the preceding year for the first time since November 1929. Changes of about the average seasonal amount were shown in foreign trade, in sales of life insurance, in advertising, and in bank debits.

In the first three weeks of July, car loadings of merchandise and miscellaneous freight, after seasonal adjustment, averaged somewhat lower than for the month of June.

(Adjusted for seasonal variations and usual year-to-year growth)

	1930	1931		
	June	April	May	June
Primary Distribution				
Car loadings, merchandise and misc.	92	80	79	78
Car loadings, other	89	74	68	65
Exports	81	63	64	63*p*
Imports	93	76	74	75*p*
Panama Canal traffic in American vessels*r*	93*r*	78*r*	76*r*	
Distribution to Consumer				
Department store sales, 2nd Dist.	99	102	95	99
Chain store sales, other than grocery	89	88	87	84
Life insurance paid for *r*	95*r*	93*r*	92*r*	92*r*
Advertising	87	78	77	76
General Business Activity				
Bank debits, outside of New York City	104	85	86	86
Bank debits, New York City	141	103	102	102
Velocity of bank deposits, outside of New York City	114	90	91	89
Velocity of bank deposits, New York City	146	99	93	96
Shares sold on N. Y. Stock Exchange *r*	222*r*	130*r*	117*r*	157*r*
Postal receipts	94	87	87	84
Electric power	91	83	80	78
Employment in the United States	92	80	80	78
Business failures	106	108	109	98
Building contracts	115	59	60	62
New corporations formed in N. Y. State	90	89	86	94
Real estate transfers	65	55	54	52
General price level*	169	155	153	150
Composite index of wages*	225	217	216	215
Cost of living*	165	149	149	148

p Preliminary *r* Revised *1913 average=100

Foreign Trade

The value of this country's foreign merchandise trade during June continued the general downward course of the past two years, although the declines from May to June were about in accordance with the usual seasonal movement. Exports, valued at $187,000,000, were 37 per cent smaller than a year ago, and were the smallest in dollar amount since September 1914, while imports of $176,000,000 were 30 per cent less than in June 1930. The resulting favorable balance of trade was the smallest since May 1929, when a small excess of imports developed.

The quantity of raw cotton shipped abroad in June was 38 per cent larger than a year previous, but because of the much lower prices, the value was less than in June 1930. Quantity shipments abroad of grains and grain products also showed an increase of about 13 per cent over June 1930, and receipts of raw silk, crude rubber, and coffee increased substantially in volume compared with a year ago.

For the fiscal year ended June 1931, exports amounted to $3,084,000,000 and imports to $2,437,000,000, showing decreases of 34 and 37 per cent, respectively, from the previous fiscal year. Among the leading commodities, the quantity of raw cotton exports declined very slightly from the previous year's total, and the quantity of crude rubber imports was reduced only 11 per cent; receipts of raw silk increased 8 per cent in volume and coffee 14 per cent. A considerable part of the loss in total foreign trade values during the past year was accounted for by lower commodity prices.

Wholesale Trade

The June sales of reporting wholesale dealers in this district averaged about 10 per cent less than a year ago, the smallest year-to-year decline since February 1930. Following substantial decreases in May, sales of men's clothing and of hardware showed smaller reductions from a year ago than in a number of months, and sales of drugs were less than 2 per cent below last year. In addition, yardage sales of silk goods, reported by the Silk Association of America, after declining temporarily in May, were nearly half again as large as in June 1930. Sales of groceries, cotton goods, shoes, stationery, and paper, however, continued to be substantially below the previous year, and the sales of jewelry and diamonds were more than 40 per cent smaller than in June 1930. Machine tool orders, reported by the National Machine Tool Builders Association, also remained considerably below a year ago.

Sales of reporting wholesalers for the first six months of 1931 averaged 20 per cent smaller than in the corresponding period of 1930. All lines showed decreases, except silk goods, sales of which are reported in yardage rather than value.

The end of June stocks of merchandise in all reporting lines, except drugs and hardware, were substantially below a year previous. Collections in June averaged better than in 1930, whereas in the two previous months slower collections were reported.

Commodity	Percentage change June 1931 compared with June 1930		Per cent of charge accounts outstanding May 31 collected in June		Percentage change in net sales	
	Net sales	Stock end of month	1930	1931	June1931 from May1931	First six mos.1931 from1930
Groceries	—18.2	— 8.7	71.6	75.7	+ 6.3	—16.9
Men's clothing	— 5.0	....	37.1	39.1	—15.0	—29.3
Cotton goods	—21.3	—29.4	34.7	34.8	+ 7.4	—25.2
Silk goods	+49.1*	—16.2*	46.9	57.0	+ 0.2*	+ 8.9*
Shoes	—10.7	—42.0	41.9	46.0	+12.4	—19.8
Drugs	— 1.7	+23.9	26.3	34.2	— 1.9	— 6.6
Hardware	— 4.4	— 0.5	47.3	47.6	— 1.7	—15.4
Machine tools**	—41.5	....	....	....	—15.6	—45.1
Stationery	—24.2	....	76.3	71.5	+ 3.7	—21.8
Paper	—19.4	....	61.3	55.5	— 8.8	—22.0
Diamonds	—49.0	—45.3	} 22.1	} 19.6	—32.4	—37.5
Jewelry	—43.4	—27.6			+12.0	—34.6
Weighted average	— 9.6	....	49.0	52.1	— 1.5	—19.6

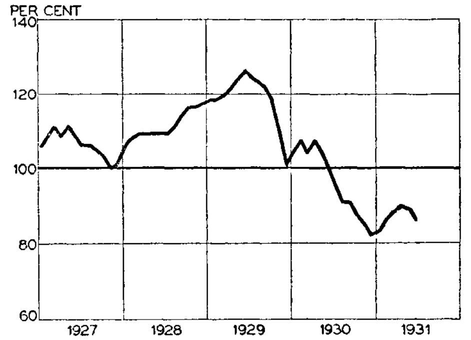
* Quantity not value. Reported by the Silk Association of America
** Reported by the National Machine Tool Builders Association

Department Store Trade

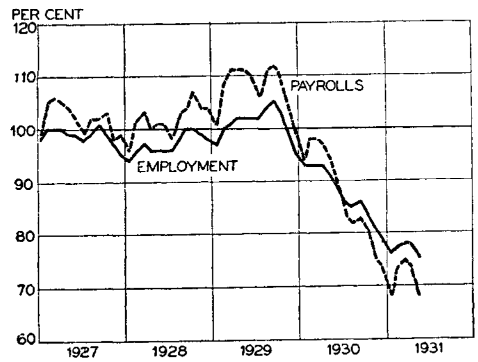
Sales of reporting department stores in this district during June were slightly larger than in the corresponding period of last year, following the large decrease reported for May. The more favorable comparison of sales with those of a year ago was due partly to an extra selling day in June of this year, but after adjustment for this the daily rate of sales showed the smallest decline from a year ago since March. Increases in sales over June of last year were reported in New York City, Newark, and Westchester, and the declines reported in the other sections of the district, ranging from 1 per cent to 12 per cent, were generally the smallest in recent months. Sales of the leading apparel stores showed an 8 per cent decrease from last year, a smaller decline than in either of the two previous months. For the first six months of 1931, department store sales showed a 6.6 per cent decline from 1930, and apparel store sales a decline of 8.6 per cent.

Stocks of merchandise on hand at the end of June, valued at retail prices, were even further below the level of a year ago than in May. The rate of collections on charge accounts during the month was slightly lower than in June 1930, but compared more favorably with a year ago than in May.

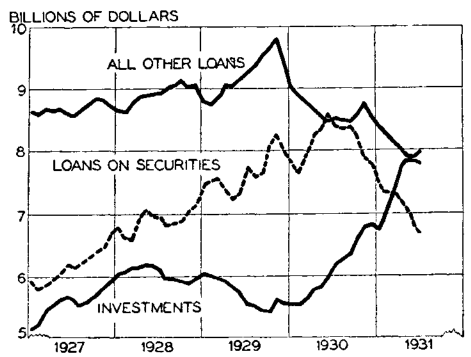
Locality	Percentage change from a year ago			Per cent of accounts outstanding May 31 collected in June	
	Net sales		Stock on hand end of month		
	June	January to June		1930	1931
New York	+ 0.2	— 6.7	—14.7	48.9	48.8
Buffalo	— 5.5	— 8.6	—15.2	48.6	47.9
Rochester	— 1.2	— 5.9	—10.0	39.0	39.6
Syracuse	— 8.0	— 8.2	—17.3	28.3	27.3
Newark	+ 5.5	— 4.6	—17.6	42.8	42.4
Bridgeport	— 2.3	— 8.7	—16.3	41.3	38.4
Elsewhere	— 6.4	— 8.2	—11.8	34.8	34.5
Northern New York State	—12.2	— 8.5	....	....	....
Southern New York State	— 7.3	— 8.8	....	....	....
Hudson River Valley District	— 8.3	— 9.9	....	....	....
Capital District	— 9.4	—11.0	....	....	....
Westchester District	+ 6.0	+ 2.8	....	....	....
All department stores	+ 0.2	— 6.6	—15.0	45.4	44.9
Apparel stores	— 8.3	— 8.6	—17.9	43.9	43.4



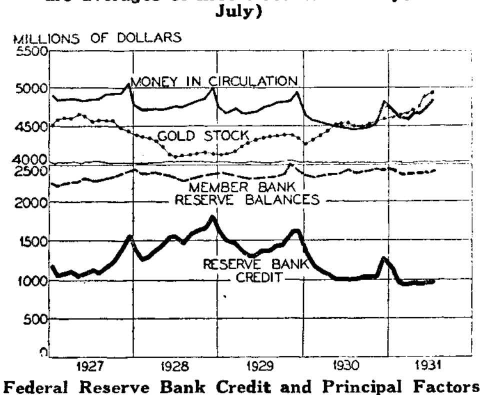
Index Number of Production of Manufactures and Minerals Combined, Adjusted for Seasonal Variations (1923-25 average=100 per cent)



Index Numbers of Factory Employment and Payrolls, Without Adjustment for Seasonal Variations (1923-25 average=100 per cent)



Monthly Averages of Weekly Figures for Reporting Member Banks in Leading Cities (Latest figures are averages of first three Wednesdays of July)



Federal Reserve Bank Credit and Principal Factors in Changes (Monthly averages of daily figures —latest figures are averages of first 19 days in July)

Business Conditions in the United States

(Summarized by the Federal Reserve Board)

INDUSTRIAL production showed more than the usual seasonal decline in June, and factory employment and pay rolls decreased. Wholesale prices, which had continued to decline until the end of May, advanced in June, but for most commodities declined again in the first half of July.

Production

A decrease in industrial output from May to June was reflected in a decline in the Board's index of industrial production, which is adjusted for seasonal variations, to 86 per cent of the 1923-1925 output, as compared with 89 per cent in May. Taking the second quarter of the year as a whole, production has averaged about 4 per cent above its low level in the last three months of 1930.

The reduction of activity in June was most marked in the iron and steel industry, with steel plants operating at 38 per cent of capacity. Automobile output declined further, and there was some recession in production of lumber, meat products, and flour. Petroleum output, however, was not reduced. Activity of textile mills and shoe factories continued in relatively large volume; in the woolen industry, activity was sustained at the unusually high level of May, and the decline in the consumption of cotton was not in excess of the usual seasonal amount.

During the first half of July, there were further reductions, partly seasonal in nature, in output of steel, automobiles, and lumber.

Factory employment was further reduced by nearly 3 per cent, and pay rolls declined by 6 per cent between the middle of May and the middle of June. The largest decreases were in the steel, machinery, and women's clothing industries, while reductions at automobile plants and cotton mills were partly seasonal in character, and employment at woolen and hosiery mills increased.

Building contracts awarded in June were somewhat larger than in May, but declined again in the first half of July. Since the early spring, awards have not increased as much as is usual for the season. In residential building there has been relatively little change for about a year and a half, except for seasonal fluctuations, and the decline in construction has been chiefly in other types of building, principally public works and utilities.

Distribution

At department stores, daily average sales were seasonally smaller in June than in May. Freight-car loadings were also reduced, reflecting principally a further reduction in loadings of miscellaneous commodities.

Prices

During June wholesale prices of many commodities advanced considerably, after having reached low levels late in May and early in June. Prices of live stock and meats increased; and after June 21 there were rapid advances in prices of raw materials important in world markets, especially cotton, hides, sugar, silk, copper, silver, and rubber. Subsequently, however, most of these prices receded somewhat, although in mid-July they were, in general, above their lowest levels. The price of wheat declined during June and the first half of July, as the domestic price became adjusted to world levels.

Bank Credit

At reporting member banks in leading cities, loans on securities continued to decline between the middle of June and the middle of July, while all other loans increased by $140,000,000. This increase was concentrated at New York City banks, and was largely in the form of acceptances purchased in the open market. Member banks' investments continued at about the same level as in May and early June.

Notwithstanding a further addition of $77,000,000 to the country's stock of monetary gold between the weeks ended June 20 and July 18, there was no decrease in Federal Reserve Bank credit outstanding. During the period the Reserve Banks' portfolio of United States securities was increased by $75,000,000, while their combined holdings of acceptances and of discounts for member banks decreased by approximately the same amount. The gold inflow provided member banks with funds to meet an added demand for currency, as well as to increase their balances with the Reserve Banks. There was also a considerable growth in foreign bank deposits with the Reserve Banks.

Money rates continued at low levels.