MONTHLY REVIEW

of Credit and Business Conditions

Second Federal Reserve District

Federal Reserve Agent | *Federal Reserve Bank, New York* | *July 1, 1934*

Money Market in June

The money market during the past month has shown the effects of continued pressure of funds to find employment. Yields on highest grade short term investments having approached the vanishing point, the decline in money rates in June took the form largely of further reductions in yields on medium and long term investments.

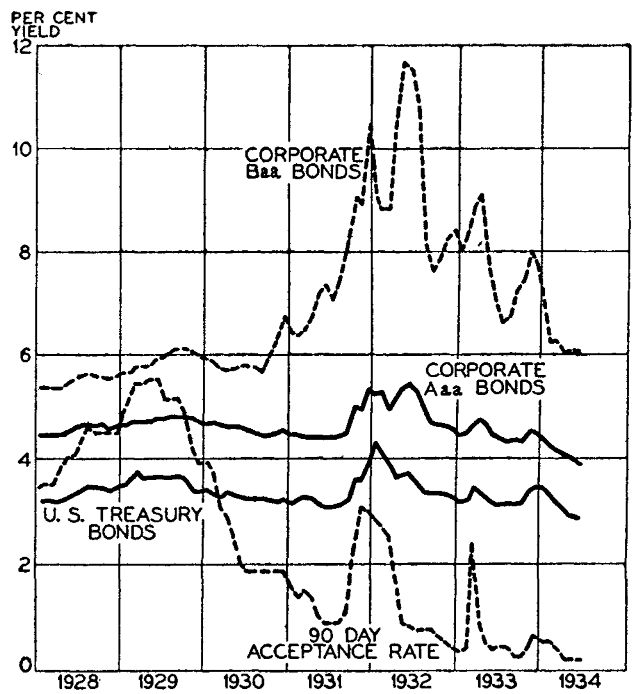
The accompanying diagram reviews the course of representative interest rates of various types for several years past. The decline in short term money rates during the past few years to the lowest levels on record has been followed by a gradual decline in yields on the highest grade long term investments. Consequently, yields on the best grade bonds have now reached levels below those prevailing at the beginning of 1928 and in 1931, and are the lowest in many years.

Although the volume of Government bonds outstanding has increased as a result of the depression, the supply of funds available for employment has increased even faster during the past two years and especially since the bank holiday. Consequently, although there have been occasional periods of uncertainty when prices of Government bonds have declined sharply and yields have risen correspondingly, the general tendency of yields on Government securities has been downward for many months. The average yield on long term Government bonds in the latter part of June was around 2.80 per cent, the lowest yield since before the war.

Highest grade corporation bonds also have tended to follow short term money rates in general direction, though not in magnitude of movement, but these issues also were influenced for a time by the low level of public confidence. Recently, however, prices of such securities have advanced fairly rapidly, reflecting the large volume of funds available for investment and also the limited supply of new securities coming into the market, and the average yield on the group of Aaa bonds represented in the diagram has declined from well above 5 per cent in 1932 to slightly less than 4 per cent.

Lower grade bond yields moved in the same general direction as short term money rates until 1930, but since that year they appear to have been influenced chiefly by business tendencies. The average yield on a representative group of bonds of medium grade rose above 11 per cent for a time in 1932, reflecting an extraordinarily low ebb in business and business profits, and also in public confidence concerning the business and financial outlook. Since the middle of 1932 a moderate improvement in the business situation, a large accumulation of idle funds in the banks, and a greater inclination on the part of investors generally to employ their funds have been accompanied by a very rapid decline in the yields on bonds of medium grade, so that the average rate of return on the group shown in the diagram has declined to slightly over 6 per cent, the lowest rate of return since the early autumn of 1930. The demand for securities of this type, however, is not yet as keen as for the highest grade bonds, and the margin between yields on medium grade bonds and yields on higher grade bonds remains wider than in the period from 1928 to 1930, no doubt reflecting the fact that business is still far below capacity operations and business profits are correspondingly lower than in prosperous years.

In general, the decline in long term money rates has progressed to the point where many borrowers of high



Comparative Movements of Yields on Long Term Investments and Rates on Bankers Acceptances since 1928 (Moody's Investors Service data for corporation bonds)

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credit standing are able to obtain funds at unusually low cost, and in some cases such borrowers are now taking steps to retire securities bearing relatively high coupon rates through the sale of new securities bearing lower coupon rates. Thus far, however, operations of this kind have been largely confined to public or semipublic institutions, and little has been attempted along this line by corporations whose senior securities are given high rating, but whose securities have been subject to the provisions of the Securities Act. Corporate borrowing through the sale of new issues of types which would be rated as medium grade securities remains virtually at a standstill, despite the improvement in prices of outstanding bonds of this class.

Excess Reserves

In the first half of June, excess reserves of all member banks increased further, due largely to Government financial operations together with further moderate imports of gold, and reached a new high level at an amount only slightly below $1,800,000,000. At the middle of the month, however, there was a temporary reduction of approximately $200,000,000 due largely to Treasury operations connected with the sale of new security issues on the quarterly tax date. A considerable number of banks that subscribed to the new Treasury securities issued on June 15 elected to pay for the securities with cash rather than with book credit, and consequently a substantial volume of funds was transferred from member banks to the balances maintained by the Treasury in the Reserve Banks. This movement was supplemented by the usual quarterly income tax collections. During the remainder of the month some of these funds were disbursed gradually by the Government, but excess reserves, although in very large volume, did not reach as high a level as in the first half of the month.

In New York City the volume of excess reserves of member banks averaged slightly higher in June than in the previous month, ranging from about $475,000,000 to about $575,000,000. Short term money rates in the New York market remained at practically the same low levels as a month ago, as the following table indicates. The only quotable changes were slight further declines in open market commercial paper rates and in yields on short term Government securities.

Money Rates at New York

	June 30, 1933	May 31, 1934	June 29, 1934
Stock Exchange call loans	1	1	1
Stock Exchange 90 day loans	¾	*¾–1	*¾–1
Prime commercial paper—4 to 6 months	1½–1¾	1	¾–1
Bills—90 day unindorsed	⅜	⅛–¼	⅛–¼
Customers' rates on commercial loans	†3.42	†2.38	†2.13
Treasury securities			
Maturing September (yield)	No yield	No yield	No yield
Maturing December (yield)	0.04	No yield	No yield
Maturing December 1935 (yield)	....	0.50	0.28
Average rate on latest Treasury bill sales			
91 day issue	0.27	0.06	....
182 day issue	....	0.13	0.07
Federal Reserve Bank of New York rediscount rate	2½	1½	1½
Federal Reserve Bank of New York buying rate for 90 day indorsed bills	1	½	½

* Nominal † Average rate of leading banks at middle of month

Member Bank Credit

During the four weeks ended June 20 the total loans and investments of weekly reporting member banks increased more than $400,000,000 to a new high level for the past two years. Approximately half of the increase was in New York City banks and half was in reporting banks in other cities throughout the country. The principal factor in each case was an increase in Government security holdings, which reached new high levels in June due chiefly to purchases of the new securities sold by the Treasury on June 15. In addition, there was an increase of nearly $100,000,000 in the security loans of the New York banks during the four weeks, and small increases occurred in New York City and elsewhere in the holdings of securities other than United States Government issues.

Net demand deposits in the reporting member banks increased more than $300,000,000 during the three weeks ended June 13, but nearly all of the increase was canceled by a reduction in the subsequent week, so that this class of deposits showed only a small increase for the month. The reduction in the week ended June 20 apparently resulted largely from subscriptions to the new Government security issues and from income tax collections, and Government deposits in the reporting banks increased nearly $450,000,000 during that week to the highest level since the first week of April.

Bill Market

As for several months past, the discount market for bills was extremely quiet in June. Very few bills came into the market, due both to the tendency of accepting banks to hold as investments the new bills created and also to the decrease in the total volume of bills outstanding. The dealers' portfolios of bills remained at a minimum, as whatever small amounts of bills did find their way into the market were quickly absorbed by purchasers, mostly at a yield of ⅛ per cent. No general buying and selling rates were quoted by the dealers, who continued the practice initiated in April of quoting rates only on application.

For the fourth consecutive month, the volume of bankers bills outstanding showed a decline. At the end of May the total outstanding was $569,000,000, the smallest volume since August 1925. The decline for the month amounted to $44,000,000 and since January to $202,000,000, reflecting principally reductions in the volume of domestic warehouse credits and bills based on exports and goods stored in or shipped between foreign countries. The May decline in bills outstanding was greater than the decrease in the holdings of accepting banks and bankers, whose portfolios on May 31 amounted to $507,000,000, or 89 per cent of all bills then outstanding.

Commercial Paper Market

Open market rates for commercial paper declined somewhat in June to new low levels. At the beginning of the month the dealers generally were quoting average grade prime four to six month paper at 1 per cent, with some sales at ¾ per cent. Subsequently, sales at the ¾ per cent rate became an increasingly important factor in the rate structure, and around the middle of

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the month a prevailing range of ¾-1 per cent was established. The ¾ per cent rate applied more particularly to four month maturities, although some sales of five and six month notes at this rate were also made when attractive names became available. Investment demand on the part of the banks for prime paper continued active, and although the amounts of new material acquired by the dealers increased somewhat, especially toward the end of the month, the supply remained considerably below the volume required to fill all orders.

The volume of commercial paper outstanding increased 1½ per cent further in May, and was 135 per cent higher than in May 1933, but the total of $142,000,000 remained small in comparison with the volume outstanding a few years ago.

Loans to Industry

Legislation was enacted during June which amends the Federal Reserve Act so as to authorize the Federal Reserve Banks to provide established industrial and commercial businesses with working capital.

The Federal Reserve Banks are authorized to discount or purchase from "any bank, trust company, mortgage company, credit corporation for industry, or other financing institution," obligations maturing within five years, "entered into for the purpose of obtaining working capital for any such established industrial or commercial business," and to make loans or advances direct to financing institutions on the security of this type of obligation. Any such financing institution must either obligate itself to the Federal Reserve Bank for at least 20 per cent of any loss which may be sustained by the Bank upon any obligation acquired from the financing institution, or advance at least 20 per cent of the working capital for the established industrial or commercial business without obligating itself on the amount advanced by the Federal Reserve Bank.

The amendment also provides that "In exceptional circumstances, when it appears to the satisfaction of a Federal Reserve bank that an established industrial or commercial business located in its district is unable to obtain requisite financial assistance on a reasonable basis from the usual sources, the Federal Reserve bank, pursuant to authority granted by the Federal Reserve Board, may make loans to, or purchase obligations of, such business, or may make commitments with respect thereto, on a reasonable and sound basis, for the purpose of providing it with working capital, but no obligation shall be acquired or commitment made hereunder with a maturity exceeding five years."

In each Federal Reserve District an industrial advisory committee is to be appointed by the Federal Reserve Bank, subject to the approval and regulations of the Federal Reserve Board, which is to consider each application for a loan. The committee is to be composed of five members, each of whom "shall be actively engaged in some industrial pursuit within the Federal Reserve district . . . "

The aggregate amount of credit extensions and commitments of the Federal Reserve Banks outstanding under this section of the Act at any one time is limited to the combined surplus of the Banks as of July 1, 1934 plus all amounts paid by the Secretary of the Treasury under this Act to the Federal Reserve Banks. The Act provides that "In order to enable the Federal Reserve banks to make the loans, discounts, advances, purchases, and commitments provided for in this section," the Secretary of the Treasury is authorized, upon the execution of a specified agreement by a Federal Reserve Bank, to pay to such Federal Reserve Bank not to exceed the par value of Federal Deposit Insurance Corporation stock now held by such Federal Reserve Bank. All amounts so expended by the Secretary of the Treasury are to be paid out of the miscellaneous receipts of the Treasury created by the increment resulting from the reduction of the weight of the gold dollar under the President's proclamation of January 31, 1934.

The Reconstruction Finance Corporation Act was also amended so as to permit the Corporation "when credit at prevailing bank rates for the character of loans applied for is not otherwise available at banks . . . to make loans to any industrial or commercial business . . . established prior to January 1, 1934." The loans must be adequately secured and "may be made directly, or in cooperation with banks or other lending institutions, or by the purchase of participations, shall have maturities not to exceed five years, shall be made only when deemed to offer reasonable assurance of continued or increased employment of labor, shall be made only when, in the opinion of the board of directors of the Corporation, the borrower is solvent, shall not exceed $300,000,000 in aggregate amount at any one time outstanding . . . ," and the aggregate amount of loans to any one borrower by the Reconstruction Finance Corporation under this section of the Reconstruction Finance Corporation Act is not to exceed $500,000. The Corporation's power to make such loans will terminate "on January 31, 1935, or on such earlier date as the President shall by proclamation fix."

New Financing

Several important new security offerings were either announced in June or plans for their early flotation took definite form. The largest except for United States Government issues was the offering of $131,400,000 of 10 to 12 year 4 per cent Federal Land Bank consolidated bonds, priced at 100¾ and yielding 3.90 per cent, the purpose of which was to provide funds for the retirement of approximately the same amount of 4¾ per cent Federal Land Bank issues which have been called for redemption on July 2. This is the first joint offering of bonds by the twelve Federal Land Banks, which are jointly and severally liable for the payment of both interest and principal of all such bonds. Previous offerings of Federal Land Bank bonds have consisted of bonds issued individually by each of the twelve banks. Under the terms of the June offering, holders of the called 4¾ per cent bonds were given preferred allotment on exchanges of their bonds for the new issue, and it was announced that a large proportion of the called bonds had been exchanged, leaving only a small part of the new issue to be allotted on cash subscriptions. The interest saving resulting from the operation amounts to $985,000 a year.

The Federal Intermediate Credit Banks in June

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issued \$27,500,000 of short term debentures, partly to refund maturities of \$16,500,000, and the Edison Electric Illuminating Company of Boston filed for registration with the Federal Trade Commission a proposed \$35,000,000 note issue to refund \$25,000,000 of outstanding securities and to pay off \$7,000,000 of bank loans. In addition, plans were formulated for the sale of \$60,000,000 of New York City long term securities which will be offered early in July to provide funds with which to meet maturities in September of securities that bear 5 to 5¾ per cent coupons. These issues recently announced appear to indicate an increasing tendency to take advantage of the favorable conditions for refunding operations that now exist.

Another sizable piece of financing during June was the sale of \$30,000,000 of State of New York 1 to 10 year bonds to an underwriting syndicate on June 28. These bonds, which complete the issue of \$60,000,000 unemployment relief bonds authorized last November, were sold at a net interest cost to the State of 1.83 per cent, a new low rate for a State bond issue.

United States Treasury financing during June included the sale of \$529,000,000 of 2⅛ per cent 5 year notes and \$825,000,000 of 3 per cent 12-14 year bonds. Of the bonds, \$172,000,000 were issued in exchange for Treasury certificates of indebtedness due June 15 and \$317,000,000 were issued in exchange for Treasury notes due August 1; under the terms of the Treasury offering, subscriptions to the bonds for which payment was made in these issues were allotted in full. The part of the Treasury offering which was available for cash subscription was greatly oversubscribed, and the new issues quickly sold in the market at premiums of more than one point. The sale of the \$529,000,000 of Treasury notes and \$336,000,000 of Treasury bonds in addition to the bonds exchanged for outstanding Treasury securities increased the net interest bearing debt of the United States by \$865,000,000 in June, following a decline of \$119,000,000 in the previous three months. Treasury bill financing in June had no net effect on the outstanding debt as maturities of \$150,000,000 of 91 day bills were replaced with new issues of \$150,000,000 of 182 day bills, on which the average yield was only 0.07 per cent, a new low rate on this type of security.

New corporate financing continued to represent only a small fraction of the total volume of new securities issued.

Security Markets

Stock prices fluctuated irregularly during June and on only one day did the turnover on the New York Exchange exceed one million shares. A decline during the first two days of the month carried average prices below the mid-May low and consequently to a new low point since last November, but in the subsequent two weeks, a fairly well defined upward movement ensued, in the course of which stock prices rose about 11 per cent on the average to the highest levels since the beginning of May. After the 18th of the month, however, prices again receded and about one-half of the preceding advance was lost, so that toward the close of June prices were only about 6 per cent above the early June low.

Corporation bond prices followed a course similar to that of stock prices during June, although bond prices in general showed greater stability than did share prices. This was due to the influence in the currently available bond averages of a further persistent advance in high grade investment issues; prices of these issues have been advancing steadily for many months past under the stimulus of a large supply of funds available for investment and low short term money rates, and have reached levels considerably above those prevailing in 1927 and 1928. Fluctuations in the less high grade corporation bonds continued to be more in accord with movements in the stock market. In foreign bonds, German issues showed losses of 7 to 15 points due to the declaration of a moratorium on external debt payments. The Baker-Kellogg Company average of 40 representative foreign issues, however, declined only ¾ of a point further, as the declines in German issues were partly offset by advances in Argentine bonds and stability in bonds of a number of other countries.

United States Treasury bonds advanced more than ½ point further in price during the first half of June, and the average yield on these bonds was reduced to a new low of 2.78 per cent. Subsequently, prices receded about ¼ point but later recovered nearly to the mid-month high. The market price of the new 3 per cent Treasury bonds issued June 15 rose to a premium of nearly 1½ points.

Central Bank Rate Changes

Effective June 1 the discount rate of the Bank of France was reduced from 3 to 2½ per cent. The Austrian National Bank rate was lowered from 5 to 4½ per cent effective June 28.

Foreign Exchange

After recovering somewhat in the early part of June, foreign exchange quotations turned gradually downward from about June 9 to 25, but subsequently a moderate advance occurred. Sterling, which had receded 7 cents in May, declined 3 cents more in the opening days of June, but quickly regained this loss. As a result of subsequent irregular fluctuations, quotations around the end of June were little different than at the close of May. The French franc was quoted below the estimated gold import point at the beginning of the month, but following moderate shipments of gold from Paris to New York recovered to above the gold point and remained there for the balance of the month. Belgas, guilders, and Swiss francs generally moved in accord with sterling and French francs.

The reichsmark, which was subject to varied influences during June, fell precipitately from a close of \$0.3904 on the 1st to \$0.3765 on the 5th, but after a period of irregularity rose rapidly near the end of the month to \$0.3940 on the 27th. Lire turned strong early in the month shortly after the announcement of stricter foreign exchange regulations and registered a new high closing rate since mid-February at \$0.0868½ on June 6, but subsequently the rate declined to a level only slightly above the closing May quotation.

There was no change in the prevailing relationship between sterling and the Scandinavian, Japanese, and Argentine exchanges, but Brazilian milreis again moved

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independently and did not go below $0.0850. Aside from the silver currencies, which gained slightly with the price of silver, the Canadian dollar was the principal currency which showed strength in this market, rising from $1.0025 on June 1 to a high of $1.0166 on the 18th, and closing the month above $1.01.

Closing Cable Rates at New York

Exchange on	Par of Exchange	June 30, 1933	May 31, 1934	June 28, 1934
Belgium	$ .2354	$ .1766	$ .2336	$ .2340
Denmark	.4537	.1905	.2263	.2263
England	8.2397	4.2750	5.0650	5.0638
France	.0663	.04950	.06588	.06601
Germany	.4033	.3020	.3900	.3911
Holland	.6806	.5060	.6769	.6790
Italy	.0891	.0664	.0853	.0856
Norway	.4537	.2145	.2545	.2547
Spain	.3267	.1057	.1366	.1370
Sweden	.4537	.2200	.2612	.2615
Switzerland	.3267	.2428	.3248	.3254
Canada	1.6931	.9138	1.0038	1.0113
Argentina	.7187	.3200	.3377	.3376
Brazil	.2026	.0763	.0850	.0854
Uruguay	1.7511	.5300	.8000	.8000
Japan	.8440	.2663	.3010	.3005
India	.6180	.3226	.3812	.3810
Shanghai	.....	.2775	.3275	.3425

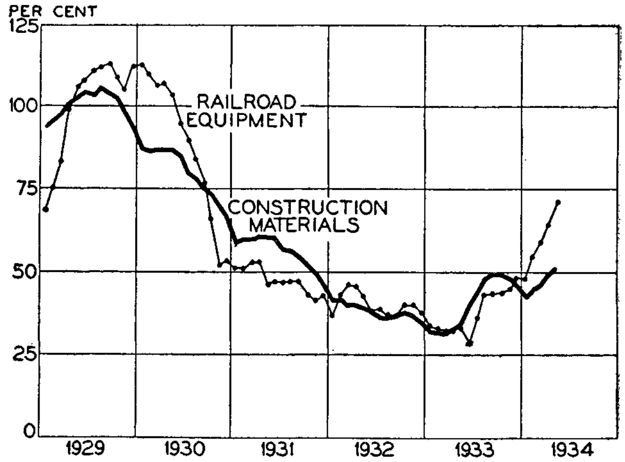
Gold Movement

Gold imports purchased by the New York Assay Office during June amounted to about $59,000,000, or double the volume imported in May. The principal amounts received were $28,300,000 from England, $12,000,000 from India, $9,300,000 from France, $6,700,000 from Canada, $2,200,000 from Mexico, and $350,000 from Holland. Pacific Coast imports of gold totaled $2,200,000, representing shipments from China. In addition, the United States monetary gold stock was increased by the release of $1,300,000 of gold previously earmarked at this bank for foreign account, and by receipts of scrap gold by the mints and assay offices averaging about $1,300,000 weekly, and of newly mined domestic gold averaging $2,000,000 a week. In the aggregate, the monetary gold stock rose approximately $75,000,000 during June to a new high figure of more than $7,850,000,000.

Employment

On the basis of the estimate of the American Federation of Labor, private employment was increased by about 300,000 persons from April to May, owing in certain lines to seasonal expansion of working forces and in others to the stimulus provided by the expenditure of public funds. Increased employment in the building construction, capital goods manufacturing, and coal industries, and in railroad transportation and farming, were chiefly responsible for the increase in the aggregate number employed.

Total employment at factories was maintained during May at about the April level, although the spring peak is usually reached in March with small month to month recessions thereafter. A further increase in working forces was reported in industries engaged in the manufacture of products used largely for capital goods, such as steel, construction materials, and railroad equipment, which approximately offset declines in the textile, clothing, and shoe industries.



Indexes of Employment in the Construction Materials and Railroad Equipment Industries (1929 average=100 per cent)

The industries which reported increased employment during May are largely those that benefit by the demand for materials and equipment arising out of projects financed by the Public Works Administration. The effect of public works expenditures on employment in capital goods industries is indicated in the accompanying diagram, which shows indexes of employment in the construction materials and railroad equipment industries. The index of employment in the railroad equipment industry which was 71 per cent below the 1929 average in June of last year has since advanced to 29 per cent below in May 1934, largely as a result of loans to railroads by the Public Works Administration. The construction materials employment index in May 1934 was 49 per cent below the 1929 average, as compared with 69 per cent below in March 1933. Although the expenditure of public funds has resulted in a considerable increase in working forces, employment in these industries is still far below pre-depression levels.

In addition to the increases in private employment, it is estimated that the number of persons for whom employment has been provided directly through Federal emergency expenditures increased by more than 150,000 from April to May. Nearly 1,700,000 workers were engaged during May on projects financed by extraordinary Federal outlays.

Production

No pronounced change in the general level of industrial activity during June was indicated by currently available data. The index of electric power production, the short term fluctuations of which reflect largely changes in general industrial activity, continued at the level of the previous two months, as is indicated by the following diagram. Steel mill activity was estimated at about 60 per cent of capacity during the first three weeks of June, and despite a substantial reduction in operations in the last week of the month, it appears that output for June as a whole was nearly as large as in May, whereas the customary seasonal movement is quite sharply downward. The relatively high level of output during most of June was the result principally of shipments against orders placed prior to the April price advances, and to some slight extent may

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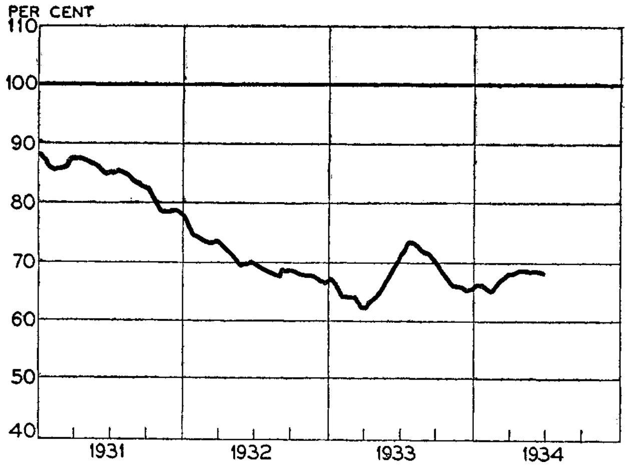

Index of Electric Power Production (Federal Reserve Bank of New York index, adjusted for seasonal variation and long time trend)

also have reflected accumulation of inventories of semi-finished steel by consuming industries due to the threat of labor disturbances. Some decline occurred in automobile production in accordance with the seasonal tendency, although sales were reported to have been somewhat stimulated by price reductions announced early in June by leading manufacturers. Operations in the cotton textile industry were curtailed by action of the Code Authority to permit an absorption of mill stocks accumulated during the past several months, when production ran considerably ahead of sales.

In May, the average rate of activity in basic industries was maintained at about the previous month's level, and the seasonally adjusted production index of the Federal Reserve Board advanced 1 point to 87 per cent of the 1923-1925 average. Sizable gains occurred in the output of iron and steel, building materials, and those food products for which monthly data are available. In the meatpacking industry a substantial increase in operations resulted from unusually heavy shipments of livestock from the drought areas, when shortage of water and pasturage and the relatively high price of feed accelerated the marketing of hogs, cattle, and calves. The output of automobiles in May declined by more than the estimated seasonal amount, however, and the production of textiles was curtailed somewhat. Little change other than seasonal occurred in the output of coal, petroleum, and electric power.

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

	1933	1934		
	May	Mar.	April	May
Metals				
Pig iron	25	46	49	55
Steel ingots	41	56	62	68
Lead	32	49	47	56
Zinc	40	59	56	56
Tin deliveries	71	48	53	
Automobiles				
Passenger cars	33	50	53	47*p*
Motor trucks	48	83	93	79*p*
Fuels				
Bituminous coal	60	91	76	75*p*
Anthracite coal	47	112	85	85*p*
Coke	42	63	63	69
Petroleum, crude	82	70	71	72*p*
Petroleum products	68	65	66	
Electric power	66	66	67*p*	67*p*
Textiles and Leather Products				
Cotton consumption	104	86	85	82
Wool mill activity	104	90	83	85*p*
Silk consumption	82	64	65	62
Rayon deliveries	133	85	76*p*	
Shoes	114	105	110*p*	115*p*
Foods and Tobacco Products				
Livestock slaughtered	105	91	104	110
Wheat flour	101	89	87	86
Sugar deliveries	93	82	72*r*	94*p*
Tobacco products	94	78	81	81
Miscellaneous				
Cement	37	51	45	48
Tires	69	90	86	
Lumber	33	43	37	37
Printing activity	57	64		
Newsprint paper	69	74	74r	77
Machine tools	14	37	40	

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Foreign Trade

During May, merchandise exports from the United States were valued at $160,000,000 and imports amounted to $155,000,000. After allowing for the usual seasonal variations, differences in number of days, and estimated price changes, this bank's index of exports showed a considerable decline from April to May, while the index of imports advanced somewhat. The value of both exports and imports was larger than in May of the previous two years, the increase over 1933 amounting to 40 per cent for exports and 45 per cent for imports.

The quantity of American cotton shipped abroad during May showed a decline from the previous month which was more than seasonal; in fact, shipments were the smallest for May of any year since 1930, and were less than one-half those of May 1933, due to a considerable extent to smaller shipments to European countries. May imports of silk and coffee were smaller in quantity than a year ago, but receipts of rubber were nearly double last year's amount.

Indexes of Business Activity

General business activity appears to have maintained a considerable degree of stability during the first half of June, although department store sales in the Metropolitan area of New York do not appear to have shown the usual seasonal increase. This bank's seasonally adjusted index of the railroad movement of merchandise and miscellaneous freight continued at the level prevailing since January, and retail sales of automobiles were reported to have been stimulated by the recent price reductions.

In May, no definite tendency was discernible in many of the important measures of general business activity, but a slight advance was shown in indexes relating to the retail distribution of goods. Declines were indicated after seasonal adjustment in the volume of check transactions and life insurance sales, while virtually no change occurred in advertising and freight car loadings.

The extent of the increase in the dollar volume of retail trade since the low point of March 1933, following over three years of decline, is indicated in the accompanying diagram, which shows seasonally adjusted indexes of sales of department stores and mail order houses since the beginning of 1930. The decline in the sales of these two groups of establishments was about equally

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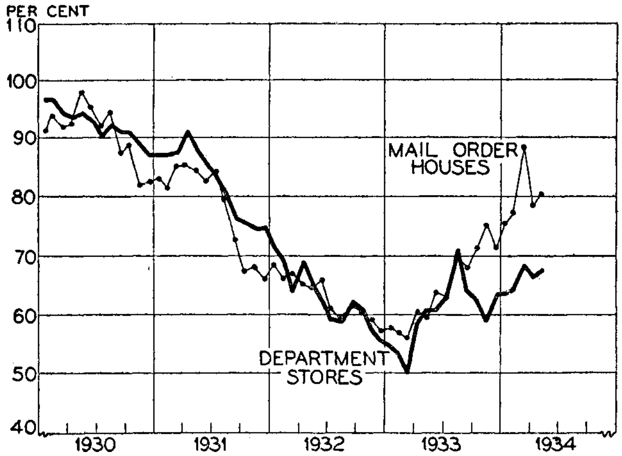

Index of Sales of Department Stores and Mail Order Houses (Data adjusted for seasonal variation; 1929 average=100 per cent)

large from 1930 to the early part of 1933, and in the spring and summer of 1933 both recovered sharply. Subsequently, however, sales of department stores which are situated principally in urban and industrial areas receded considerably along with a decline in manufacturing activity, and did not resume their upward course until the end of the year. Meanwhile the sales of mail order houses continued to rise rapidly as farm crops were marketed at higher prices and farmers' incomes were further increased by payments received from the Agricultural Adjustment Administration. As a result, the net recovery in department store business during the past year has been considerably less marked than in sales of mail order houses. In both cases the increase in the

(Adjusted for seasonal variations, for usual year to year growth, and where necessary for price changes)

	1933	1934		
	May	Mar.	April	May
Primary Distribution				
Car loadings, merchandise and misc.	54	60	60	60
Car loadings, other	48	69	60	60
Exports	43	55	59	51*p*
Imports	53	59	58	62*p*
Waterways traffic	46	66	70	
Wholesale trade	99	96	86	94
Distribution to Consumer				
Department store sales, U. S.	77	74	72	75
Department store sales, 2nd Dist.	82	77	73	74
Chain grocery sales *r*	79*r*	71*r*	66*r*	68*r*
Other chain store sales	71	80	72	74
Mail order house sales *r*	67*r*	80*r*	71*r*	72*r*
Advertising *r*	52*r*	59*r*	61*r*	63*r*
Gasoline consumption	72	70	68	
Passenger automobile registrations	36	49	51*p*	49*p*
General Business Activity				
Bank debits, outside New York City	57	60	66	62
Bank debits, New York City	53	47	56	46
Velocity of demand deposits, outside New York City	73	72	77	72
Velocity of demand deposits, New York City	52	54	63	51
Shares sold on N. Y. Stock Exchange	231	62	64	54
Life insurance paid for	64	67	73	70
Employment in the United States *r*	64*r*	82*r*	83*r*	84*r*
Business failures	84	41	46	42
Building contracts	15	30	22	23
New corporations formed in N. Y. State	85	56	60	57
Real estate transfers	45	47	47	
General price level*	127	136	137	137*p*
Composite index of wages*	172	181	183	183*p*
Cost of living*	127	139	139	140

p Preliminary *r* Revised *1913 average=100

physical volume of goods sold has been much smaller than the rise in the indexes of dollar sales shown in the diagram, as retail selling prices have risen considerably during the past year.

Commodity Prices

With the exception of rather wide movements in some of the principal farm products, commodity prices were quite stable during June. The Bureau of Labor Statistics general index of wholesale prices remained during the first half of the month at about the level of the previous four months, but thereafter advanced nearly 2 per cent to the highest point since March 1931. A major factor in this increase was a pronounced rise in livestock prices. Following a seasonal decline in hog prices beginning in March which was intensified this year by hastened marketings brought about by the drought, the average price paid for hogs at Chicago recovered sharply from a low of $3.31 a hundredweight early in June to $4.87 on June 27, which is not far below the highest levels reached last year. Advances occurred also in the prices of cattle, meats, and hides.

The price of wheat, which had advanced considerably during May owing to reports of serious crop damage brought about by insufficient rainfall, reacted somewhat in June. Spring wheat which had shown a particularly large gain in May, when the cash price of the Number 1 Northern grade at Minneapolis reached $1.10 a bushel, the highest quotation since last July, dropped 12 cents in June, and winter wheat prices also declined considerably. Despite these price declines, however, a large part of the May advance was retained.

The effects of the drought on crop yields were indicated in the June 1 crop report of the Department of Agriculture, which stated that the condition of grains and pastures on that date was the lowest on record. The total wheat crop was tentatively estimated at 500,000,000 bushels, as against a short crop of 527,000,000 last year, and an average harvest during the period 1927-1931 of 886,000,000 bushels. The winter wheat crop was estimated at 400,000,000 bushels, or only 49,000,000 bushels above the small 1933 harvest and 232,000,000 bushels below the average production of 1927-1931. A spring wheat crop of only about 100,000,000 bushels was indicated, compared with 176,000,000 bushels last year and a five year average of 254,000,000 bushels; spring wheat prospects are still highly uncertain, but were reported to have been improved by rainfall in June. A total wheat crop of the size indicated by the June report would be the smallest since 1893, and would fall short of domestic requirements by at least 100,000,000 bushels. In that event, it is reported that the carryover in the United States at the end of the 1934-35 season will probably be reduced to about normal proportions.

The price of raw cotton advanced further in June to 12.45 cents a pound, thereby recovering all of the March-April decline. The price of scrap steel, which had declined steadily from $14.75 a ton early in March to a low of $11.75 in the first half of June, held steady at that figure in the latter part of the month. Among other commodities, raw sugar rose nearly ½ cent during June to 3.15 cents a pound, the highest quotation since March, and copper rose ½ cent further to 9 cents a pound.

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Building

In May, the dollar value of construction contracts awarded was not materially different than in April, the total reported by the F. W. Dodge Corporation being about 2 per cent higher. After adjustment for the usual seasonal changes, differences in the number of business days, and estimated price changes, this bank's index of the volume of building and engineering contracts was 23 per cent of the computed trend of past years, as compared with 22 in April, and the 1933 low of 11 per cent. Contracts for publicly financed construction declined 12 per cent from April to May, while privately financed building contracts rose 13 per cent, on an average daily basis. The increase in private construction was the result solely of the awarding of a large office building contract in New York.

During recent months the amount of publicly financed construction contracts has been declining, and the May average, constituting 53 per cent of all contracts, was the smallest since last August. At the peak last December, publicly financed contracts accounted for 75 per cent of all contracts, and at that time this bank's index of total construction contracts reached the highest level since the middle of 1931 at 54 per cent of the trend of past years. Although the volume of such contracts has declined, actual construction activities have increased, reflecting the development of work on contracts which were previously awarded. The current level of contracts for publicly financed work, however, is about three times that of May 1933, and private construction is also somewhat larger, due to non-residential building. Contracts for residential construction have shown little increase so far this year, aside from purely seasonal movements, and the May total was about 6 per cent smaller than a year ago.

During the first three weeks of June, awards both of publicly and privately financed building contracts were slightly below the May level. Privately financed contracts, however, remained above the April level.

Department Store Trade

During the first half of June, sales of the leading department stores in the Metropolitan area of New York were less than 2 per cent above those of the corresponding period a year ago, and excluding sales of liquor from this year's figures there was practically no change from a year ago. During this period, the usual seasonal expansion does not appear to have occurred.

In May, total department store sales in this district were 7 per cent higher than a year ago, a somewhat smaller increase than was reported for the months of March and April combined. Exclusive of liquor sales, the May increase amounted to 4½ per cent. Department stores in Bridgeport and in the Capital District reported sales 16 per cent higher than a year ago, and with the exception of Northern New York State stores which showed a 15 per cent decrease, stores in the other localities reported moderate advances in sales. In all cases, however, the May increases were considerably smaller than the average increases for March and April. Sales of leading apparel stores in this district were 9 per cent larger than last year.

Locality	Percentage change May 1934 compared with May 1933		Per cent of accounts outstanding April 30 collected in May	
	Net sales	Stock on hand end of month	1933	1934
New York	+ 6.5	+20.7	45.9	50.1
Buffalo	+ 4.1	+11.3	41.7	47.5
Rochester	+ 9.6	+14.2	42.2	43.9
Syracuse	+ 8.0	+ 5.1	25.9	35.0
Northern New Jersey	+ 5.2	+22.4	40.0	42.3
Bridgeport	+15.7	+12.6	28.6	35.2
Elsewhere	+12.5	+ 5.3	29.1	29.4
Northern New York State	—15.0	......	....	....
Southern New York State	+11.4	......	....	....
Hudson River Valley District	+ 9.8	......	....	....
Capital District	+15.8	......	....	....
Westchester District	+ 8.6	......	....	....
All department stores	+ 6.8	+18.7	41.7	45.8
Apparel stores	+ 9.1	+34.9	44.4	45.4

Wholesale Trade

May sales of the reporting wholesale firms averaged 16 per cent higher than a year ago, a much smaller increase than in the four previous months, due largely to the fact that May 1933 was the first month last year in which wholesale trade showed substantial improvement. Sales of men's clothing showed a slightly larger increase than in April, but all other lines reported less favorable comparisons than in the immediately preceding months. Sales of the paper, stationery, and jewelry concerns, however, continued to be substantially higher than a year ago. Sales of grocery firms were 17 per cent larger than a year ago, but excluding liquor sales the increase amounted to only 4 per cent. Two of the reporting lines—shoes and diamonds—had declines in May sales as compared with a year ago, following increases in previous months, and the National Federation of Textiles again reported a substantial decline in the number of yards of silk goods sold.

The dollar value of stocks held by the grocery, drug, and hardware firms remained substantially above a year ago at the end of May, while inventories of the diamond and jewelry dealers were considerably lower.

Commodity	Percentage change May 1934 compared with May 1933		Per cent of accounts outstanding April 30 collected in May	
	Net sales	Stock end of month	1933	1934
Groceries	+17.2	+40.4	85.9	100.0
Men's clothing	+35.4	......	36.8	34.2
Cotton goods	+ 3.1	......	36.2	39.6
Silk goods	—34.8*	— 1.4*	59.3	63.6
Shoes	—20.6	......	40.2	45.2
Drugs	+ 3.8	+20.8	24.3	29.3
Hardware	+ 8.7	+28.3	44.1	47.4
Stationery	+30.3	......	49.8	51.3
Paper	+24.1	......	35.7	50.4
Diamonds	— 8.4	—14.3	} 20.7	} 27.4
Jewelry	+64.0	—21.3		
Weighted average	+15.9	......	52.1	58.0

* Quantity figures reported by the National Federation of Textiles, Incorporated, successor to the Silk Association of America Incorporated; not included in weighted average for total wholesale trade.

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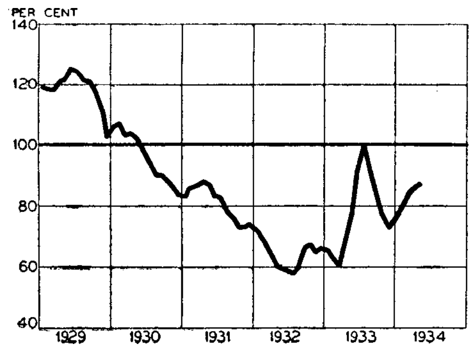
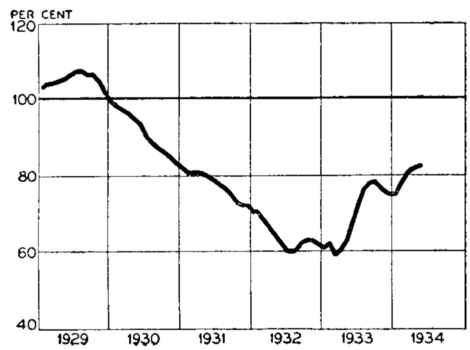
FEDERAL RESERVE BANK OF NEW YORK

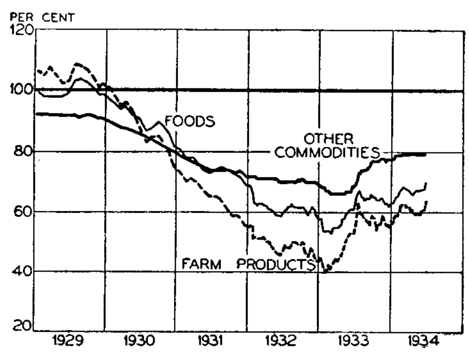
MONTHLY REVIEW, JULY 1, 1934



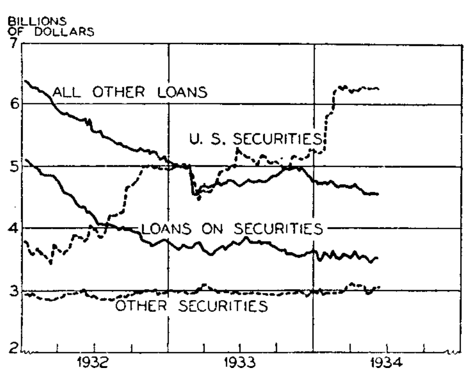
Index Number of Production of Manufactures and Minerals Combined, Adjusted for Seasonal Variation (1923-25 average=100 per cent)



Index of Factory Employment with Adjustment for Seasonal Variation (1923-25 average=100 per cent)



Group Price Indexes of Bureau of Labor Statistics (1926 average=100 per cent)



Wednesday Figures for Reporting Member Banks (Latest figures are for June 13)

Business Conditions in the United States

(Summarized by the Federal Reserve Board)

INDUSTRIAL production increased slightly in May, while factory employment and payrolls showed little change. The general level of wholesale prices, after remaining practically unchanged since the middle of February, advanced sharply in the middle of June, reflecting chiefly increases in the prices of livestock and livestock products.

Production and Employment

Industrial production, as measured by the Board's seasonally adjusted index, advanced from 86 per cent of the 1923-1925 average in April to 87 per cent in May, as compared with a recent low level of 72 last November. Activity at steel mills increased further from 54 per cent of capacity in April to 58 per cent in May, while output of automobiles showed a decline. Lumber production continued at about one-third the 1923-1925 level. In the textile industries output declined somewhat, partly as a consequence of seasonal developments. At mines coal production showed little change in volume, while output of petroleum continued to increase.

In the first three weeks of June activity at steel mills continued at about the May level, although a decline is usual at this season. Maintenance of activity reflected in part, according to trade reports, considerable stocking of steel. Output of automobiles declined somewhat, as is usual at this season.

Employment in factories, which usually declines slightly between the middle of April and the middle of May, showed little change, while employment on the railroads, in agriculture and in the construction industry increased, as is usual at this season. Increased employment was shown at manufacturing establishments producing durable goods, such as iron and steel and nonferrous metals, while employment declined at establishments producing non-durable manufactures, such as textiles and their products.

Value of construction contracts awarded, as reported by the F. W. Dodge Corporation, has shown a decline in the spring months, reflecting a reduction in the volume of contracts for public projects. The volume of construction work actually under way has increased as work has progressed on contracts previously awarded.

Department of Agriculture estimates based on June 1 conditions indicated unusually small crops of winter wheat and rye and exceptionally poor conditions for spring wheat, oats, hay, and pastures, largely as a consequence of a prolonged drought. The winter wheat crop was estimated at 400 million bushels as compared with a five year average of 630 million bushels and an exceptionally small crop of 350 million bushels last season. Rains in early June somewhat improved prospects for forage and grain crops not already matured.

Distribution

Total freight traffic increased in May by more than the usual seasonal amount, reflecting in considerable part a larger volume of shipments of miscellaneous products. At department stores the value of sales showed an increase as is usual at this season.

Commodity Prices

During May and the first three weeks of June wholesale prices of individual farm products fluctuated widely, while prices of most other commodities showed little change. Wheat, after advancing rapidly during May, declined considerably in the first three weeks of June. Cotton continued to advance in the early part of June. In the middle of the month hog prices increased sharply from recent low levels. Automobile prices were reduced in the early part of June, and copper prices advanced.

Bank Credit

During May and the first half of June there was little change in the volume of Reserve Bank credit outstanding. As a consequence of expenditure by the Treasury of cash and deposits with the Federal Reserve Banks and a growth in the country's monetary gold stock, member bank reserve balances advanced further to a level $1,800,000,000 in excess of legal requirements. In the week ended June 20, however, excess reserves dropped to $1,675,000,000, reflecting an increase in Treasury deposits at the Reserve Banks in connection with June 15 tax receipts and sales of Government securities.

Total loans and investments of reporting member banks increased by $80,000,000 between May 16 and June 13, reflecting a growth in holdings of investments other than United States Government securities and in open market loans to brokers and dealers, while loans to customers declined. Net demand deposits increased by about $400,000,000 during the period.

Money rates in the open market continued at low levels. The rate on prime commercial paper declined to ¾-1 per cent in June, the lowest figure on record.

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