MONTHLY REVIEW

of Credit and Business Conditions

Second Federal Reserve District

Federal Reserve Agent *Federal Reserve Bank, New York* *June 1, 1935*

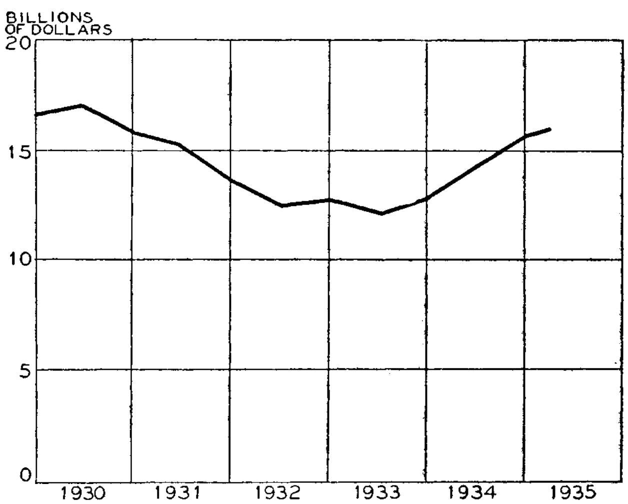
Money Market in May

Due largely to Government disbursements and a renewed inflow of gold from abroad, deposits in reporting member banks have shown a considerable further expansion during the past month. Net demand deposits rose to a new high level in reporting New York City banks, and probably also in other principal cities, although strictly comparable records for those cities are not available back of 1932. The rise in net demand deposits somewhat exaggerates the expansion in deposits subject to check, however, as it includes a considerable accumulation of idle balances of banks of the smaller localities with their city correspondent banks. Furthermore, the volume of deposits subject to check in the smaller towns and cities apparently has not reached levels relatively as high as deposits in the large cities, due partly to the limited banking facilities in some localities resulting from the closing of a large number of banking institutions from 1930 to early 1933.

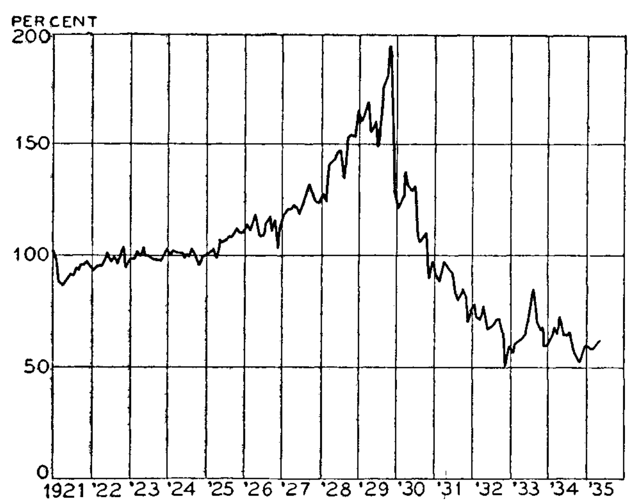
An indication of the course of deposits subject to check in all member banks is given by the data recently released by the Federal Reserve Board showing the assets and liabilities of all member banks at the time of the last condition statement submitted by members, as of March 4, 1935. The data for demand deposits, adjusted so as to exclude interbank deposits and duplication of deposits arising out of checks and other items in process of collection, are shown in the accompanying diagram, with comparable figures back to the end of 1929.

These data, of course, do not reflect the substantial expansion of the past three months, but, nevertheless, indicate that the money supply in the form of individual deposits subject to check in member banks has risen to a point where a considerable part of the shrinkage during the depression has been made up. In fact, the money supply in this form has now reached a level much more nearly approaching pre-depression levels than has business or the general level of prices. This discrepancy appears to be accounted for by the continued low rate of use of available funds, which is indicated by the second diagram. The data in this diagram, which are shown through April of this year, indicate that the average rate of turnover of demand deposits has risen only slightly from the lowest level of the depression.

Nevertheless, there have been indications recently of somewhat more active use of the funds available. Privately financed expenditures on building during the past few months have shown the first material expansion since the depression began, and expenditures on new industrial equipment, as reflected by the volume of machine tool orders, have held at fairly high levels for several months, and in April were the highest for that month in any year since 1930. Furthermore, the employment of money for purchases of stocks and com-



Demand Deposits of All Member Banks (Adjusted to exclude interbank deposits and items in process of collection; United States Government deposits also excluded)



Rate of Turnover of Demand Deposits in Principal Cities (Federal Reserve Bank of New York index; 1919-25 average=100 per cent)

modities, partly speculative in character, appears to have increased somewhat during recent weeks.

At the same time, however, the market for the highest grade investments has become somewhat hesitant. Prices of long term Government bonds during most of May were at levels slightly below those reached at the end of April, and the highest grade corporation bonds in many cases showed small recessions. In some instances, however, the recessions in high grade corporation bonds were related to the revival of refunding operations during the past few months, which have involved the calling of bonds for redemption at prices below those at which they had been selling in the market.

Money Rates

The pressure of funds seeking employment in high grade short term investments, continued to be reflected in the money market. Supplies of such paper remained far short of the investment demand, and despite increased offerings of Treasury bills in the latter part of the month, the yields obtainable from investments in such securities declined slightly further. In fact, Treasury bills of short maturity offered for resale in the market were quoted at prices such as to leave almost no yield for the purchaser. Other Government paper of short maturity which is expected to offer valuable exchange privileges continued to sell in the market at premiums more than sufficient to eliminate all yield to maturity. In the case of the commercial paper and bill markets, rates remained at the previous low levels, but practically no bills were available in the market, and supplies of high grade commercial paper were far short of the demand.

Money Rates at New York

	May 31, 1934	April 30, 1935	May 29, 1935
Stock Exchange call loans	1	¼	¼
Stock Exchange 90 day loans	*¾–1	¼	* ¼
Prime commercial paper—4 to 6 months	1	¾	¾
Bills—90 day unindorsed	⅛–¼	⅛	⅛
Customers' rates on commercial loans	†2.38	†1.71	†1.83
Treasury securities:			
Maturing December (yield)	No yield	No yield	No yield
Maturing June 1936 (yield)	....	0.04	0.01
Average yield on Treasury notes (1-5 years)	1.12	0.59	0.57
Average yield on Treasury bonds	2.86	2.41	2.46
Average rate on latest Treasury bill sales			
182 day issue	0.13	....	....
273 day issue	....	0.15	0.14
Federal Reserve Bank of New York rediscount rate	1½	1½	1½
Federal Reserve Bank of New York buying rate for 90 day indorsed bills	½	½	½

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

Member Bank Credit

The volume of loans and investments in weekly reporting member banks fluctuated irregularly during the past month, and on the whole showed some net decline. In the large New York City banks total loans and investments showed an increase of nearly $100,000,000 at the beginning of the month, reflecting chiefly loans to security dealers to finance the carrying of Government securities purchased by the dealers in anticipation of exchanges for new issues, and to some extent an increase in the Government security holdings of the banks themselves under similar circumstances. Subsequently, however, loans to dealers were reduced accompanying the distribution of the new Government securities acquired by the dealers among other investors, and the banks' own holdings of Government securities also diminished, so that total loans and investments showed a net reduction for the four weeks ended May 22 of $80,000,000. The Government security holdings of the reporting New York City banks showed a net reduction of $64,000,000, part of which, however, was probably related to the net retirement of Treasury bills at the rate of $25,000,000 a week, on each of the first three Wednesdays in May. In addition, investments in securities other than United States Government issues showed a net reduction of $40,000,000 for the period, apparently reflecting chiefly the repayment of temporary State and municipal borrowings. Security loans, however, showed a net increase of $20,000,000, and there was a small increase in holdings of Government guaranteed securities.

In other reporting cities throughout the country, total loans and investments showed a net reduction of $58,000,000 during the four week period, the principal factor in which was a further reduction of $44,000,000 in security loans, which receded to a new low point for many years, but there were also smaller reductions in other loans and in holdings of Government securities.

Government Securities

Prices of United States Government securities fluctuated within a narrow range during May, and the average yields of 2.46 per cent on outstanding Treasury bonds and 0.57 per cent on Treasury notes of 1 to 5 year maturity near the end of the month were little different from those prevailing at the beginning. The rates at which Treasury bill issues were sold were slightly lower than in April—0.14 to 0.15 per cent on five issues of 9 month bills and 0.09 to 0.10 per cent on two issues of 133 day bills. The 133 day bills restored the continuity of weekly bill maturities which was interrupted early in April when the Treasury issued only 9 month bills for seven consecutive weeks. In all $250,000,000 of 9 month bills and $100,000,000 of 133 day bills were put out, while maturities consisted of $375,000,000 of 6 month bills. In the first three weeks of May there were net maturities of $75,000,000 of bills, but in the latter half of the month the Treasury offered $25,000,000 more bills than matured each week.

Subscription books to the issue of 2⅞ per cent Treasury bonds of 1955-60 offered only in exchange for First Liberty Loan bonds, which are called for payment June 15, remained open through May 23 when a total of $744,000,000 of exchanges had been made. These exchanges together with exchanges of $864,000,000 of First Liberty's for 1⅝ per cent Treasury notes of 1940, left only $325,000,000 of First Liberty Loan bonds to be redeemed in cash on June 15, or 17 per cent of the amount of the First Liberty Loan outstanding when the redemption call was issued.

A new feature of the Government bond market during May was an offering by the Treasury of an additional $100,000,000 of 3 per cent bonds of the issue of 1946-48 on a competitive bid basis, similar to the method followed in Treasury bill sales. It was reported that this was the first instance that direct Government bonds have been sold in this manner since 1911 when the 3 per cent Panama Canal Loan was floated. On this Treasury bond issue, tenders received aggregated $270,000,000. The average price on the bonds allotted was 103 4/32, and the premium to be paid will reduce the average yield to the earliest call date to about 2.67 per cent.

The Treasury also announced, on behalf of the Home Owners' Loan Corporation, an issue of Home Owners' Loan Corporation 1½ per cent bonds of Series F 1939 in exchange for Home Owners' Loan Corporation 4 per cent bonds called for redemption on July 1. The called bonds are guaranteed by the United States as to interest only, while the new issue is guaranteed both as to interest and principal. At the time the exchange offering was announced, it was stated that an additional amount of bonds of Series F 1939, approximately equal to the amount of Home Owners' Loan Corporation 4 per cent bonds not tendered in exchange for the new bonds, would subsequently be offered for cash subscription.

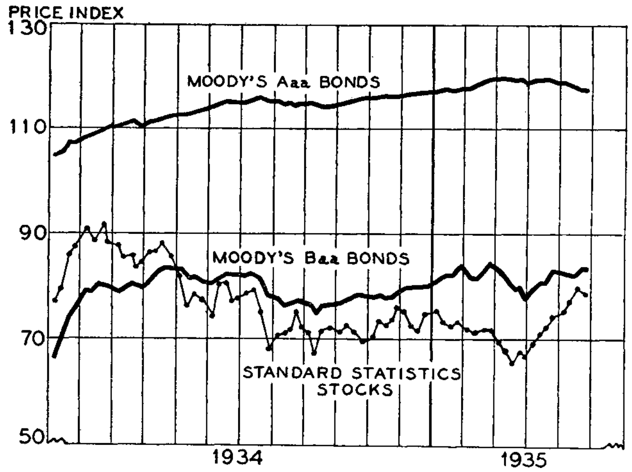
Bills and Commercial Paper

Reflecting the low level of acceptance outstandings, as well as the tendency for accepting banks to hold closely practically all of the available bills, the discount market for bills remained dull during May and dealers' portfolios continued in very small amount. Rates likewise were unchanged. At the end of April the volume of acceptances outstanding amounted to $413,000,000, a decline of $53,000,000 from a month earlier due principally to a large reduction in domestic warehouse credit bills. Compared with a year ago the volume of bills shows a shrinkage of $200,000,000, or nearly one-third. Accepting banks and bankers held 95 per cent of the bills outstanding on April 30.

During the first part of May, some sales of prime commercial paper maturing in four months were made at ½ per cent, but throughout the month dealers generally continued to quote ¾ per cent as the prevailing rate for prime four to six month paper. No change occurred in the active bank investment demand for business paper nor in the limited volume of new paper coming into the market. At the end of April commercial paper houses had outstanding $173,000,000 of paper, an amount 5 per cent less than on March 31, but 24 per cent more than a year ago.

Security Markets

The advance in stock prices which began around the middle of March continued further in May and trading activity was maintained at a somewhat higher rate than for several months prior to mid-April. During the first three weeks of May, the advances were principally in prices of industrial stocks, which as a group rose to the highest level since April 1934. In all, industrial stocks advanced nearly 25 per cent above the mid-March lows, but in the closing week of the month turned reactionary, declining about 6 per cent. Public utility stocks, which showed no important advance during the first three weeks of the month, rose several points during the final days of May to the highest level since last October.



Movements of Stock and Bond Prices (Standard Statistics Company 90 stock index and Moody's Investors Service data for Aaa and Baa corporate bonds)

Railroad shares were rather steady throughout the month.

The accompanying diagram shows the recovery that has occurred in the general average of stock prices during the past 2½ months and the movements that have occurred in corporate bond prices. Corporation bonds of the highest grade, shown in the top line of the diagram, have moved slightly lower since the first part of March, losing about 1 point on the average, while medium grade bonds since the end of March have tended to advance with stock prices, although the extent of the rise has been much less—about 3 points—and considerable irregularity has been exhibited. Among the highest grade bonds, the price declines have been fairly general, while the recovery in lower grade issues has been chiefly in railroad and utility shares. The recent slight recession in high grade corporation bonds in many cases has been in issues that have been selling above the prices at which they are callable. The increase in refunding operations in the industrial and public utility fields beginning in March indicated the possibility of further calling of bonds for redemption prior to maturity.

New Financing

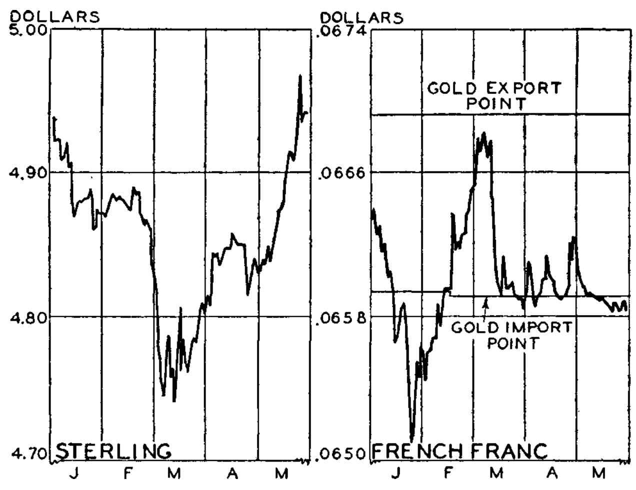
During May, public offerings of new securities other than United States Government direct and guaranteed issues were in considerably smaller volume than in April or in March, due largely to a smaller volume of State, municipal, and farm loan financing. Corporation issues continued in substantial volume, and it appears that in May a part of the proceeds of new corporate issues was to supply new capital. In the case of the $15,000,000 issue of 4½ per cent ten year debentures by the National Distillers Products Corporation, for instance, the corporation announced that the proceeds after repayment of $5,000,000 of bank loans would be used to provide working capital. An issue of $50,000,000 National Steel Corporation 4 per cent bonds was floated to provide for refunding in the amount of $39,000,000, an advance of $2,000,000 to a subsidiary, and the balance for working capital and reimbursement for capital expenditures. Three other sizable corporate issues of the month—$15,500,000 San Diego Consolidated Gas and Electric Company bonds, $13,500,000 Union Oil Company of California debentures, and $12,000,000 Atlantic Coast Line Railroad Company notes—were for refunding purposes including payment of bank loans. For the rest, May security offerings included a number of small to moderate size State and municipal issues and two small corporate issues.

Foreign Exchanges

The principal developments in the foreign exchange market during May were pronounced weakness in the French franc and a rise in the pound sterling. The franc showed a downward tendency in the first few days of the month and dropped on May 9 to a level at which shipments of gold from Paris to New York became profitable. Despite heavy engagements of gold for shipment to this country, the franc remained considerably below the lower gold point during the remainder of the month, as is shown in the accompanying diagram. The spread between spot and forward quotations increased sharply, the discount on three month contracts equaling 6 per cent in the latter part of the month.

Accompanying the weakness of the franc, the pound sterling advanced sharply from $4.84½ on May 8 to a high of $4.97 on May 25. This rise, following a general upward tendency since the middle of March, was more than sufficient to cancel the January to March decline, as the diagram also indicates, and the pound returned to about the level prevailing last December. Recent advances in sterling have occurred during periods of weakness in the European gold currencies—the recovery in the latter part of March coincided with the Belgian exchange crisis; the further advance in the first half of April was accompanied by weakness in guilders and Swiss francs; and the gain during May occurred while the French franc was below the gold import point to the United States.

The movements of the Swiss franc continued to correspond approximately to those of French exchange, but in the first half of May the guilder was somewhat stronger than either of the other two gold bloc currencies, remaining generally above the lower gold point until May 20. The belga held slightly below its new parity of $0.1695 until May 23, but rose sharply thereafter to $0.1711 on May 29. Among other European currencies, recessions occurred in the rates for the lira, the Polish zloty, the Spanish peseta, and the Austrian schilling.



Movements of Sterling and French Franc Exchange at New York (Latest quotations are for May 28)

The sterling area exchanges and the Japanese yen advanced in keeping with the pound sterling, and the Canadian dollar for a while was quoted at a slight premium for the first time in several months. While the official rate for the Brazilian milreis remained fairly steady the free rate declined further to a new low of $0.0525. Since the market was restored largely to a free basis on February 11, this rate has declined nearly 21 per cent.

Closing Cable Rates at New York

Exchange on	May 31, 1934	April 30, 1935	May 29, 1935
Belgium	$ .2336	$ .1699	$ .1711
Denmark	.2263	.2158	.2199
England	5.0650	4.8300	4.9250
France	.06588	.06620	.06600
Germany	.3900	.4042	.4034
Holland	.6769	.6787	.6756
Italy	.0853	.0827	.0822
Norway	.2545	.2429	.2475
Spain	.1366	.1371	.1367
Sweden	.2612	.2492	.2539
Switzerland	.3248	.3249	.3235
Canada	1.0038	.9956	.9994
Argentina	.3377	.3220	.3283
Brazil	.0850	.0860	.0857
Uruguay	.8000	.8000	.8000
Japan	.3010	.2850	.2900
India	.3812	.3656	.3736
Shanghai	.3275	.4150	.4188

Central Bank Rate Changes

Accompanying the heavy outflow of gold from France during May, three successive advances in rates were made by the Bank of France. These changes were as follows:

	Discount Rate	Rate for Advances on		
		Gold	Securities	Short Treasury Paper (30 day loans)
Rates prevailing May 1	2½	3½	4½	2⅝
Rates effective May 24	3	4½	4½	3
Rates effective May 27	4	5½	4½	4
Rates effective May 29	6	7	6½	6

The 6 per cent discount rate is the highest in force since the period from December 1926 to February 1927, when it stood at 6½ per cent.

Rates were also raised in May by the central banks of Switzerland and the Free City of Danzig. On the 3rd the Swiss National Bank raised its discount rate from 2 to 2½ per cent, the lower rate having been in force since January 22, 1931. On May 2, simultaneously with a devaluation of 42.37 per cent in the Danzig gulden, giving it a new parity with the dollar of 18.9938 cents, the Bank of Danzig raised its rate from 4 to 6 per cent.

The National Bank of Belgium lowered its discount rate one-half of 1 per cent to 2 per cent on May 16. On the same day, the Netherlands Bank rate, which had been raised twice in April from 2½ to 4½ per cent, was lowered to 4 per cent, but on May 31 the rate was raised to 5 per cent, effective June 1.

Gold Movement

The movement of gold from Europe to the United States which began early in April continued during the first nine days of May when $14,100,000 was received from Holland and $2,100,000 from France. On May 17 a renewed inflow of gold began, reflecting the weakness of the French franc in the foreign exchange market, and by the end of May a total of $109,500,000 was imported from France. In addition, $2,500,000 was received from Canada, $1,600,000 from England, and $700,000 from China during the month. There was also a receipt of $1,800,000 of gold from Colombia which was immediately earmarked on arrival and was therefore without effect on the gold stock.

In addition to the May imports and to the release of $300,000 from gold held under earmark for foreign account, the monetary gold stock was also increased by receipts of newly mined gold and scrap gold at the mints and assay offices, and the aggregate increase of about $151,000,000 raised the gold stock of this country to a new high of approximately $8,860,000,000.

Business Profits

Aggregate net profits, less deficits, of 279 industrial and mercantile companies for the January to March quarter of 1935 were 31 per cent larger than for the corresponding quarter of 1934, accompanying an increase in the volume of business between these two periods which in the case of basic industrial production amounted to about 10 per cent. First quarter profits were also 21 per cent larger than those reported for the corresponding period of 1931, but were materially less than the earnings in 1930 and roughly half as large as in preceding prosperous years. Although the building supply company group was the only one of the industrial groups to show a combined deficit this year, not all companies for which reports are available in other groups were able to earn net profits; in fact 77 companies, or 28 per cent of the total, reported deficits in 1935. The extent of the improvement in earning capacity, however, is indicated by the fact that 62 per cent of the reporting companies did better than in the first quarter of 1934—either increasing profits, reducing deficits, or earning some net profits in place of the deficits shown in 1934—while the remaining 38 per cent of the companies did not do as well as a year ago.

Among the various groups of companies, the largest relative improvement in profits occurred in the copper, machinery and tool, and electrical equipment groups, all of whose profits in 1934 were small. The printing and publishing and household equipment groups also experienced a substantial rise in earnings, as did the automobile parts and automobile manufacturing concerns. Two groups, the steel and railroad equipment concerns, reported small net profits this year, as against deficits last year. Several groups, however, including the coal and coke, food and food products, motion picture and amusement, and clothing and textile companies, had smaller profits this year than last.

Contrary to the experience of industrial companies in the aggregate, Class I railroads and public utilities other than telephone companies earned less in the first quarter of 1935 than in 1934. The Class I railroads, after reducing their combined deficit to small proportions in the first quarter of last year, showed a deficit three times as large in the January to March quarter this year, and in the case of the utilities the decline in profits which has occurred since 1929 proceeded somewhat further.

(Net profits in millions of dollars)

Corporation group	No. of Cos.	First Quarter 1931	1932	1933	1934	1935
Automobiles	11	29.3	3.0	— 1.6	29.3	38.5
Automobile parts and accessories (excl. tires)	26	4.8	— 2.5	— 4.5	8.5	13.8
Building supplies	9	1.2	— 2.0	— 3.3	— 0.7	— 0.1
Chemicals and drugs	19	25.8	17.3	11.1	24.6	25.1
Clothing and textiles	9	— 0.4	— 0.3	— 0.4	0.8	0.7
Coal and coke	8	0.7	— 0.5	— 1.2	1.4	0.8
Copper	6	— 0.1	— 1.2	— 2.2	0.1	0.8
Electrical equipment	9	7.9	2.2	— 2.3	2.6	7.9
Food and food products	35	35.7	26.0	19.2	27.2	22.3
Household equipment	7	0.9	— 1.5	— 1.6	0.7	1.3
Machinery and tools	13	0.7	— 3.6	— 2.9	0.4	2.0
Metals and mining (excl. copper, coal, and coke)	8	4.0	1.6	1.4	8.6	8.0
Motion pictures and amusement	4	2.8	— 1.7	— 0.3	1.4	1.0
Office equipment	5	2.5	1.8	1.1	2.8	3.0
Oil	26	—10.8	— 1.7	—27.9	9.0	9.1
Paper & paper products	6	1.0	0	— 0.2	0.5	0.6
Printing and publishing	4	5.3	3.0	0.8	1.4	2.2
Railroad equipment	8	2.4	— 1.2	— 2.9	— 0.9	0.1
Steel	19	7.1	—28.5	—34.6	— 7.3	7.5
Tobacco	5	1.1	0.5	0.1	0.4	0.5
Miscellaneous	42	6.5	3.0	— 0.2	7.0	9.7
Total, 21 groups	279	128.4	13.7	—52.4	117.8	154.8
Class I Railroads Net income	149	*	—54.4	—94.9	—15.3	—45.5
Other public utilities (except telephone cos.) Net income	59	84.3	75.8	63.6	61.0	59.2

— Deficit * Not Available

Production

Data on the volume of basic industrial activity so far available for May indicate that a further slight recession occurred, continuing the decline which began in February. Operations in the automobile industry were curtailed early in the month in connection with labor difficulties, and although there was some subsequent pick-up the average rate of output for the month as a whole was lower than in April. Steel ingot production declined somewhat in conformity with the usual seasonal tendency, and operations in the cotton textile industry were reduced further. Bituminous coal production increased moderately from the low April level.

The extent of the decline in industrial activity in April is indicated by a drop of 2 points in the Federal Reserve Board's seasonally adjusted index of industrial production to 86 per cent of the 1923-25 average. This compares with the January index of 90, which was the highest since the summer of 1933; therefore, the indicated recession for the three month period from January to April amounted to not more than 4½ per cent. The average rate of operations in the steel industry for April was 45 per cent of capacity as against 49 per cent in March. Bituminous coal output dropped sharply, and cotton mills continued the gradual curtailment begun in the preceding month. The expansion in automobile production between March and April was smaller than that experienced between these months in many other years, but nevertheless the number of cars produced was the largest for April of any year since 1929.

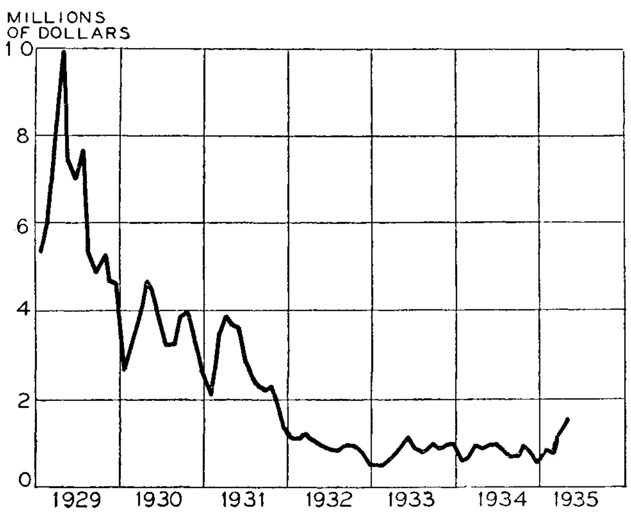
(Adjusted for seasonal variations and usual year to year growth)

	1934	1935		
	April	Feb.	Mar.	April
Metals				
Pig iron	51	56	51	49
Steel	64	64	59	54
Lead	47	42	46	47
Zinc	56	64	63*r*	64
Automobiles				
Passenger cars *r*	50*r*	70*r*	72*r*	64*r*
Motor trucks *r*	86*r*	109*r*	100*r*	94*r*
Fuels				
Bituminous coal	76	83	95	64*p*
Anthracite coal	85	85	58	83*p*
Petroleum, crude	71	70	69	68*p*
Petroleum products	66	66	65	
Electric power *r*	74*r*	73*r*	72*r*	71*r*
Textiles and Leather Products				
Cotton consumption	85	82	78	74
Wool mill activity	83	119*r*	109	104*p*
Silk mill activity	66	68	64	59*p*
Rayon deliveries	76	91	73	
Shoes	113	103	102*p*	105*p*
Foods and Tobacco Products				
Meat packing	104	77	78	79
Wheat flour	87	88	85	82
Refined sugar deliveries	72	95	95	105*p*
Tobacco products	81	82	82	83
Miscellaneous				
Cement *r*	47*r*	38*r*	41*r*	43*r*
Tires	71	69	63	
Newsprint paper	74	72	68	67*p*
Machine tools	40	46	48	52

p Preliminary *r* Revised

Building

During April, contracts for residential construction increased further to the largest volume since the closing months of 1931. The increase reported by the F. W. Dodge Corporation appears to have been in excess of the usual seasonal upturn, but although April contracts were nearly double a year ago the amount still remains small in comparison with other recent years, as the accompanying diagram indicates. Increases in residential contracts over a year ago were reported in virtually all of the territories included in the Dodge report and the improvement, as in previous months of this year, included increases in contracts for apartment houses, single and two family dwellings, and housing developments.



Daily Average Value of Residential Building Contracts Awarded in 37 States (F. W. Dodge Corporation data)

In Metropolitan New York and vicinity total construction contracts placed in April were about three-fourths larger than a year ago, due chiefly to the increase in residential construction, although there was also some increase in nonresidential construction contracts other than public works and utilities. In the up-State New York Territory, however, total April contracts were somewhat smaller than a year ago despite an increase in residential work.

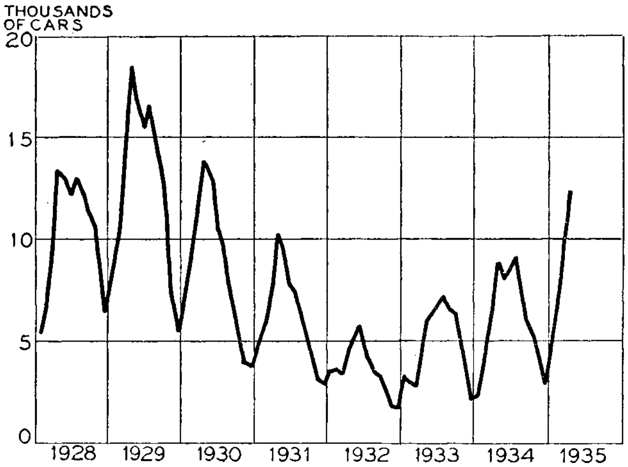
Total privately financed contracts in the 37 States covered by the Dodge reports reached a volume during April that has been exceeded only in one month, June 1933, since comparable records were started at the beginning of 1932. Here again the increase in residential contracts was the principal factor, although there was also some increase in contracts for commercial buildings, partly offset by a smaller volume of factory construction. Publicly financed construction, on the other hand, continued below the level of a year ago, reflecting the materially smaller contracts for public works projects than at this time last year.

In the first half of May, residential building fully maintained the April rate, although frequently May reports show some seasonal decline. The principal changes between April and May were a larger than seasonal falling off in public works and utility projects and a more than seasonal advance in other nonresidential contracts.

Indexes of Business Activity

During the first three weeks of May, the movement of merchandise and miscellaneous freight over the railroads receded from the April level, and the movement of bulk freight showed an increase of somewhat less than the average seasonal proportions owing largely to a decline in grain shipments and a continued low level of coal loadings. Sales of department stores in the Metropolitan area of New York in the first half of May, however, made a better showing than in April, seasonal influences considered.

During April general business activity and the distribution of goods showed a downward movement, with most of this bank's seasonally adjusted indexes participating in the decline. A substantial reduction occurred in the railroad movement of bulk freight, and the expansion in department and chain store business in the weeks preceding Easter was of considerably less than the expected proportions. Reductions from the previous month occurred also in the indexes of mail order house sales and wholesale trade, while the indexes of merchandise and miscellaneous freight car loadings and of bank debits were little changed. Registrations of new passenger automobiles showed less than the average March to April increase, probably due to the fact that registrations had already risen with exceptional rapidity because of the early introduction of new models this year. As the accompanying diagram indicates, April new car registrations and the total for the first four months of this year were substantially higher than in the corresponding period of any year since 1930.



Daily Average Registrations of New Passenger Automobiles

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

	1934	1935		
	April	Feb.	Mar.	April
Primary Distribution				
Car loadings, merchandise and misc.....	60	62	61	60
Car loadings, other..................	60	65	65	58
Exports..............................	56	47	51	47*p*
Imports..............................	63	67	75	68*p*
Wholesale trade......................	86	90	89	77
Distribution to Consumer				
Department store sales, U. S...........	72	71	77	71
Department store sales, 2nd Dist........	74	67	72	68
Chain grocery sales..................	66	61	60	60
Other chain store sales................	80	82	85	79
Mail order house sales................	71	75	97	79
Advertising..........................	61	58	63	61
New passenger car registrations *r*.......	47*r*	66*r*	69*r*	62*r*
Gasoline consumption................	68	66	68*p*	
General Business Activity				
Bank debits, outside New York City....	66	61	65	65*p*
Bank debits, New York City...........	56	43	47	48*p*
Velocity of demand deposits, outside New York City........................	77	66	69	68
Velocity of demand deposits, New York City..............................	63	44	46	48
New life insurance sales...............	64	63	56	53
Factory employment, United States.....	83	83	84	83*p*
Business failures.....................	46	40	37	45
Building contracts....................	22	20	21	19
New corporations formed, N. Y. State...	60	58	55	54
General price level*...................	137	142	141	142*p*
Composite index of wages*............	184	183	185	187*p*
Cost of living*.......................	136	142	142	142

p Preliminary *r* Revised * 1913 average=100

Commodity Prices

The general level of actively traded commodity prices continued to advance during most of May, due to increases in prices of some of the nonagricultural as well as some agricultural commodities. In the metals group, the current quotation for lead rose 60 points to 4.37½ cents a pound, the highest price since October 1933, zinc advanced 20 points to 4.30 cents a pound, and tin closed the month at 51.50 cents a pound, a gain of ⅝ of a cent from the end of April. Scrap steel at Pittsburgh rose 25 cents to $11.75 a ton, following a decline of $2.00 between mid-January and mid-April.

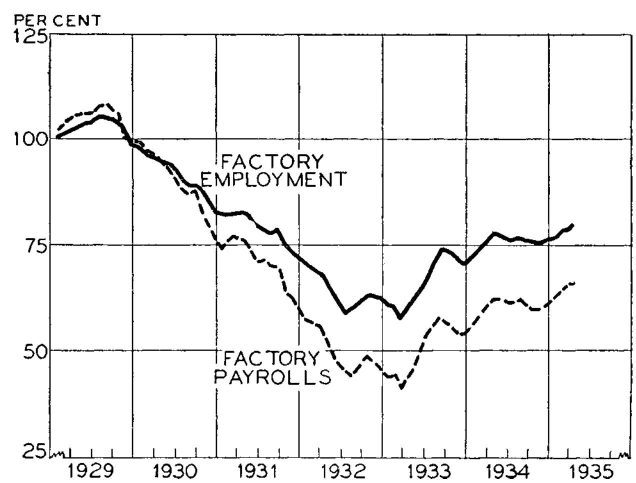
Among other important commodities, rubber, hides, and wool also moved higher during May, and the average price of hogs rose $1.07 to $10.00 a hundredweight, a new high since October 1930, but several other important farm products declined in price. Grain prices especially moved lower in May reflecting improved crop prospects; the spot quotation for wheat at Minneapolis declined 18⅞ cents to 99⅝ cents a bushel, thus more than canceling the gain which had occurred between mid-March and the end of April, corn decreased 4⅜ cents to 84½ cents, and the average price of steers showed a net reduction of 83 cents to $11.67 a hundredweight.

Employment and Payrolls

From the middle of March to the middle of April the seasonally adjusted indexes of employment and payrolls in representative New York State factories advanced for the fifth consecutive month. During this five month period, employment rose 6 per cent and payrolls 11 per cent, after seasonal adjustment, and both indexes reached the highest level since 1931, as the accompanying diagram indicates. Between mid-March and mid-April, increased employment at construction material plants reflected the spring upturn in building activity, and the number of workers engaged in the metals and machinery factories continued to increase, but little change was reported in the textile industries.

For the United States as a whole, factory employment and payrolls showed little change from the middle of March to the middle of April. After allowance for usual seasonal variations, however, the payrolls index registered its seventh consecutive monthly advance, reaching a level more than 20 per cent above the 1934 low point of last September, and about 5 per cent above a year ago. In the durable goods group of industries, employment and payrolls continued to rise, the construction materials industries especially showing pronounced gains. Among the nonmanufacturing industries substantial seasonal advances were reported in the number of workers engaged in private building construction and in retail trade, but there was a sharp decline in bituminous coal mining which more than offset employment gains in other branches of the mining industry.

The number of persons engaged on public projects financed by Federal emergency outlays increased by



Indexes of Employment and Payrolls in New York State Factories, Adjusted for Seasonal Variation (Federal Reserve Bank of New York indexes based on State Department of Labor data; 1925-27 average = 100 per cent)

approximately 135,000 from the middle of March to the middle of April, due largely to an increase of about 75,000 in enrollment at Civilian Conservation Camps and to the addition of more than 50,000 workers on Public Works Administration construction projects.

Foreign Trade

The foreign merchandise trade of this country during April declined from the previous month, exports amounting to $164,000,000 and imports to $171,000,000. The resulting import balance was the first to occur since August 1933, when, accompanying depreciation in the exchange value of the dollar, imports appeared to have received greater stimulus than exports. After the first expansion in 1933, the dollar value of exports continued to rise, while imports showed no material change. The margin of exports over imports became substantial in the latter half of 1934, but has narrowed rapidly in recent months. The April 1935 value of imports was 16 per cent above that of a year ago, while the value of exports showed a decrease of 9 per cent.

Total exports of raw cotton from the United States continued to be smaller in volume than a year ago but the reduction was not relatively as large as in the previous nine months. Demands for American cotton in France, Spain, Belgium and a few smaller European consumers of American cotton as well as China showed increases over April 1934, while other leading consuming countries continued to take less than a year ago. Available statistics on the quantity of crude rubber and coffee imports show a slight decrease from April 1934 in the rubber receipts and an increase in the coffee imports.

Department Store Trade

During the first half of May, sales of the reporting department stores in the Metropolitan area of New York were 2 per cent below the corresponding period a year ago, but compared favorably with sales in preceding months, after allowance for seasonal fluctuations in trade.

In April, total sales of the reporting department stores in this district were 6 per cent higher than a year ago, reflecting in part the late date of Easter and also one more shopping day in April this year. The volume of Easter business, however, was smaller than was expected on the basis of seasonal influences, and consequently this bank's index of Second District sales declined, following an increase in March. Practically all localities reported substantial gains in sales over a year ago, particularly large increases occurring in the Syracuse, Northern New York State, Southern New York State, and Westchester and Stamford reporting department stores. Small declines in sales were registered by the Hudson River Valley and Capital District stores. Sales of reporting apparel stores in this district were 12 per cent higher than in April 1934.

Stocks of merchandise on hand, at retail valuation, continued slightly below the level of the corresponding period a year ago. Collections of accounts outstanding at the end of the previous month were better this year than last for the department stores in a majority of localities and also for the apparel stores.

Locality	Percentage change April 1935 compared with April 1934		Per cent of accounts outstanding March 31 collected in April	
	Net sales	Stock on hand end of month	1934	1935
New York	+ 6.1	— 3.9	48.7	48.6
Buffalo	+ 6.4	— 9.6	42.5	45.3
Rochester	+ 5.9	— 4.4	45.2	45.4
Syracuse	+10.2	— 5.9	36.3	36.8
Northern New Jersey	+ 4.2	— 3.8	40.7	41.3
Bridgeport	+ 6.9	+ 6.0	37.1	36.7
Elsewhere	+ 8.0	—10.9	27.6	31.8
Northern New York State	+12.1	......	....	....
Southern New York State	+14.8	......	....	....
Hudson River Valley District	— 2.2	......	....	....
Capital District	— 2.3	......	....	....
Westchester and Stamford	+26.7	......	....	....
All department stores	+ 6.0	— 4.4	44.7	45.2
Apparel stores	+12.1	+ 4.4	42.8	44.3

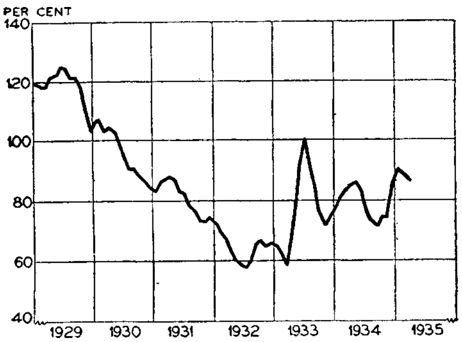
Wholesale Trade

Total April sales of the reporting wholesale firms in this district averaged 11 per cent above a year ago, and even after allowance for one more business day than in April 1934, the advance was the largest recorded since December. Sales of the grocery firms showed the most substantial gain since last November, and the drug, shoe, and men's clothing concerns registered the largest increases since December. Sales of the paper, diamond, and jewelry firms also compared more favorably with the previous year than in March or February. The declines in hardware, stationery, and cotton goods sales, however, were the most pronounced since last summer, as was the decline in sales of silk goods which are reported on a yardage basis by the National Federation of Textiles, Incorporated.

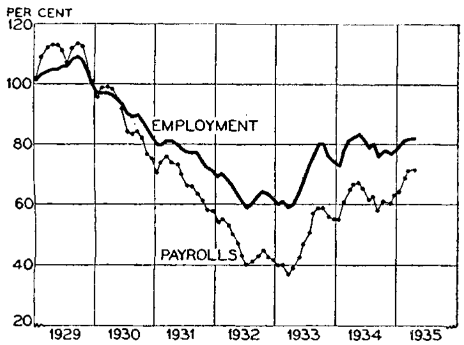
The amount of merchandise held at the end of April by the diamond firms was substantially higher than a year ago, and a small increase in stocks was reported by the grocery concerns. The drug, hardware, and jewelry firms, on the other hand, showed small reductions from a year ago. Collections in April of accounts outstanding at the end of March averaged higher this year than last.

Commodity	Percentage change April 1935 compared with April 1934		Per cent of accounts outstanding March 31 collected in April	
	Net sales	Stock end of month	1934	1935
Groceries	+ 8.2	+ 3.6	94.1	94.1
Men's clothing	+28.5	......	39.5	49.5
Cotton goods	—16.4	......	36.3	38.4
Silk goods	—31.9*	—12.6*	62.3	59.3
Shoes	+19.1	......	44.7	49.1
Drugs	+ 7.1	— 1.3	28.3	27.0
Hardware	— 2.3	— 0.2	40.0	39.4
Stationery	— 5.6	......	49.6	55.8
Paper	+ 7.1	......	51.2	48.2
Diamonds	+ 9.3	+24.8	29.4	25.7
Jewelry	+ 3.3	— 2.7		
Weighted average	+10.9	......	56.5	58.6

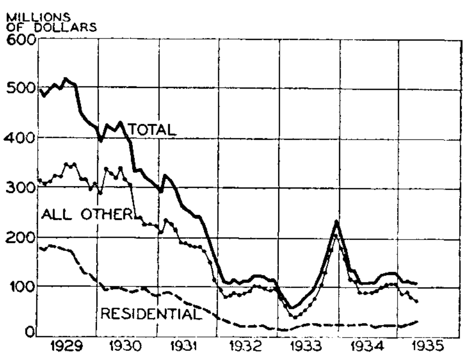
* Quantity figures reported by the National Federation of Textiles, Incorporated, not included in weighted average for total wholesale trade.



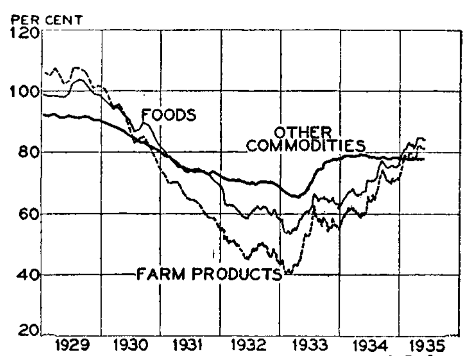
Index Number of Production of Manufactures and Minerals Combined, Adjusted for Seasonal Variation (1923-25 average = 100 per cent)



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



Value of Construction Contracts Awarded (Three month moving averages of F. W. Dodge Corporation data for 37 Eastern States, adjusted for seasonal variation)



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

Business Conditions in the United States

(Summarized by the Federal Reserve Board)

FACTORY production and employment showed little change in April, while output at mines declined. Residential construction showed a further increase.

Production and Employment

Combined output of factories and mines, as measured by the Federal Reserve Board's seasonally adjusted index of industrial production, declined from 88 per cent of the 1923-25 average in March to 86 per cent in April. This downward movement reflected chiefly decreases in the output of steel, cotton and silk textiles, and bituminous coal, offset in part by increased mill consumption of wool, and larger output of anthracite. At steel mills output declined from 49 per cent of capacity in March to 45 per cent in April and, according to trade reports, showed a further slight decline in the first three weeks of May. In the automobile industry there was a further increase in production during April, followed by a decline in the early part of May, partly as a consequence of labor disputes. In the tobacco industry activity was maintained at recent high levels. Output of bituminous coal declined sharply at the beginning of April, following a period of relatively high production earlier in the year.

The total number of workers employed in factories was about the same in the middle of April as a month earlier and factory payrolls also showed little change. Declines in employment were reported for railroad repair shops and textile mills, while in the machinery industries employment continued to increase and in the men's clothing industry it showed none of the usual seasonal decline. In agriculture and in the building industry employment increased seasonally.

Total value of construction contracts of all kinds, as reported by the F. W. Dodge Corporation, showed little change from March to April. A further increase in residential projects was offset in the total by a decline in contracts for other types of construction.

Distribution

Total freight car loadings declined in April, contrary to seasonal tendency, chiefly as a consequence of a large decrease in shipments of bituminous coal. Department store sales, which had shown a sharp increase in March, increased by considerably less than the estimated seasonal amount in April.

Commodity Prices

The general level of wholesale commodity prices, as measured by the index of the Bureau of Labor Statistics, has shown little change since the middle of April, following an increase in the early part of the month, and in the week ended May 18 was at 80.0 per cent of the 1926 average as compared with 79.9 per cent in the week ended April 13. For this period the prices of cotton, hogs, hides, and nonferrous metals increased somewhat, while grains and butter declined. In the following week there were further increases in the prices of hogs and of lead, while prices of wheat decreased further.

Bank Credit

During the five weeks ended May 22 member bank balances with the Federal Reserve Banks increased to $4,820,000,000, the highest figure on record, and excess reserves rose to a new high level of over $2,350,000,000. The principal factors in the increase of member bank reserve balances were the disbursement by the Treasury of $240,000,000 of funds previously held in the form of cash or on deposit with the Federal Reserve Banks and further gold imports of $90,000,000.

Deposits of reporting banks in leading cities increased further during the four week period ended May 15, reflecting chiefly disbursements by the United States Treasury.

Yields on short term Government securities declined slightly further during this period, while other short term open market money rates remained at low levels. The discount rate was reduced from 2 per cent to 1½ per cent at the Federal Reserve Bank of Cleveland and from 2½ per cent to 2 per cent at the Richmond, Minneapolis, Kansas City, and Dallas Banks. Rates are now 1½ per cent at New York and Cleveland, and 2 per cent at all the other Reserve Banks.