

MONTHLY REVIEW

of Credit and Business Conditions

Second Federal Reserve District

Federal Reserve Agent

Federal Reserve Bank, New York

September 1, 1935

Money Market in August

Despite a considerable increase in the volume of security trading during recent weeks, a rise in stock prices during the early part of August to the highest levels in a number of months, and a rapid expansion for several months in new security flotations, there has been no corresponding increase in the demand for credit in the New York money market. Loans to security brokers and dealers in New York City, after a moderate increase from February to May, have since shown no net increase, and other security loans of weekly reporting member banks have continued to decline; so that the total volume of security loans of the reporting banks during August has been the smallest in a number of years.

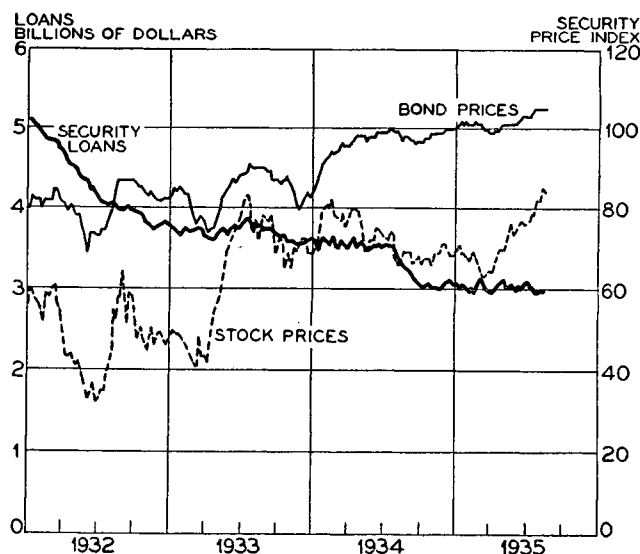
The accompanying diagram compares the course of security loans in the reporting member banks with that of security prices since the beginning of 1932. As this diagram indicates, there has been no sustained increase in the volume of security loans accompanying or following periods of rising security prices during the past three years, and the present volume of security loans in the reporting banks is approximately 40 per cent lower than at the beginning of 1932.

The divergence between security prices and security loans has occurred at a time when the volume of funds available for investment has been increasing steadily. Net demand deposits of weekly reporting member banks in New York City rose to a new high level in August, and on August 21 were approximately \$1,600,000,000 larger than a year previous, an increase of about 25 per cent. In reporting banks in other cities throughout the country net demand deposits rose close to the previous high point of July 17, and also showed an increase of more than 20 per cent over a year previous, and data from the June 29 condition reports, recently issued by the Federal Reserve Board, indicate an increase of similar amount in the deposits of "country" member banks during the past year. In New York and other principal cities a part of the increase in net demand deposits has represented the further accumulation in balances maintained with city banks of the idle funds of correspondent banks throughout the country, but a large part of the increase has been in other types of deposits.

Notwithstanding the increase in reserve requirements that has accompanied the further rise in deposits, excess reserves of member banks rose to a new high level in August. In New York City excess reserves rose at one time late in the month to around \$1,300,000,000, and for

all member banks throughout the country excess reserves rose to nearly \$2,800,000,000 in the last week of August. These amounts indicate member bank reserves more than double legal reserve requirements. The further increase in bank reserves during August was due partly to continued gold imports early in the month, but more largely to Government disbursements of balances previously accumulated in the Reserve Banks and of free gold on hand in the Treasury.

The activity of demand deposits, as reflected in bank debits, has increased somewhat from the very low levels prevailing up to the middle of this year, apparently due partly to the increased activity in the security markets. There has been no indication recently, however, of more rapid expansion of credit based on idle bank reserves. The total loans and investments of weekly reporting banks, which had increased in the first three weeks of July as the result of substantial purchases of new Government securities, showed some net reduction in the four weeks ended August 21, due to the distribution during the latter part of July and early August of part of the Government security holdings previously acquired and to the redemption of called Consols and Panama Canal bonds. Security loans, as previously noted, remained at low levels, and other loans, after reaching the low point



Movement of Total Security Loans of Reporting Member Banks, Compared with Movements of Stock and Bond Prices (Standard Statistics Company weekly indexes of stocks and bonds)

for the year at the end of July, subsequently showed only a moderate increase, presumably seasonal in character. Increases occurred also in holdings of Government guaranteed securities and of other investment securities.

MONEY RATES

The principal change in money rates during August was an upturn in yields on Government securities following an almost uninterrupted decline for a number of months previous.

Money Rates at New York

	Aug. 31, 1934	July 30, 1935	Aug. 30, 1935
Stock Exchange call loans.....	1	$\frac{1}{4}$	$\frac{1}{4}$
Stock Exchange 90 day loans.....	* $\frac{3}{4}$ -1	* $\frac{1}{4}$	* $\frac{1}{4}$
Prime commercial paper—4 to 6 months	$\frac{3}{4}$ -1	$\frac{3}{4}$	$\frac{3}{4}$
Bills—90 day undorsed.....	$\frac{1}{8}$ - $\frac{1}{4}$	$\frac{1}{8}$	$\frac{1}{8}$
Customers' rate on commercial loans (Average rate of leading banks at middle of month).....	2.25	1.71	1.75
Treasury securities:			
Maturing December (yield).....	No yield	No yield	No yield
Maturing February 1937 (yield)....	....	0.09	0.17
Average yield on Treasury notes (1-5 years).....	1.31	0.56	†0.78
Average yield on Treasury bonds (more than 5 years to earliest call date)....	2.95	2.42	2.56
Average rate on latest Treasury bill sales:			
133 day issue.....	....	0.07	0.13
273 day issue.....	....	0.07	0.13
Federal Reserve Bank of New York re- discount rate.....	1 $\frac{1}{2}$	1 $\frac{1}{2}$	1 $\frac{1}{2}$
Federal Reserve Bank of New York buying rate for 90 day indorsed bills..	$\frac{1}{2}$	$\frac{1}{2}$	$\frac{1}{2}$

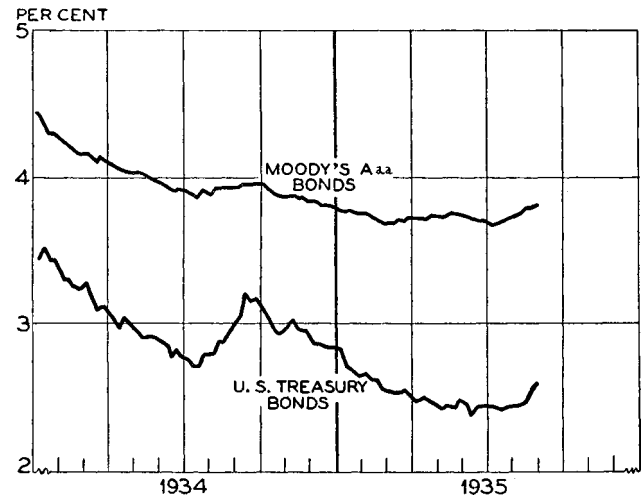
*Nominal. †Average raised 0.05 by exclusion of issue maturing August 1, 1936

GOVERNMENT SECURITIES

The increase in yields on Government securities reflected the first material reversal of Government security prices in almost a year, and, as the diagram shows, accompanied a somewhat corresponding rise in yields on high grade corporation securities. The decline in prices of Government and other high grade bonds followed successive offerings of new securities in substantial volume.

In the case of long term Treasury bonds, no material decline in prices occurred until the second week of August, but by the 27th of the month the average price had declined a total of about 1 $\frac{3}{4}$ points, and the average yield on all issues not due or callable within 5 years had risen to 2.62 per cent, the highest yield since February. Prices of short term Government securities also showed some decline in August, and the average yield on outstanding Treasury notes of 1 to 5 year maturity rose as high as 0.88 per cent, an advance of more than $\frac{1}{4}$ per cent over the end of July. In the closing days of the month, however, the market for Government securities became somewhat firmer.

New financing by the Treasury in August included the sale of two more \$100,000,000 blocks of 2 $\frac{7}{8}$ per cent Treasury bonds of 1955-60. On the first of these the average price realized was 101 18/32 and the average yield to the earliest call date was 2.77 per cent, or virtually the same as on the previous issue of these bonds, but on the second of the August sales the average price declined to 100 25/32 and the yield rose correspondingly to 2.82 per cent. Weekly sales of Treasury bills during August aggregated \$200,000,000, comprising four \$50,000,000 issues of 273 day bills. On the first three of these issues the average rate was 0.07 to 0.08 per cent, but on the issue dated August 28 the rate rose to 0.13



Average Yields on United States Treasury and High Grade Corporation Bonds (Moody's Investors Service data for Aaa bonds; Federal Reserve Bank of New York data for average yield on all Treasury bonds not due or callable within 5 years)

per cent. These bill issues replaced in part weekly maturities of 182 day bills aggregating \$275,000,000. In addition, toward the end of the month, the Secretary of the Treasury offered, on behalf of the Federal Farm Mortgage Corporation, \$100,000,000 or thereabouts of 1 $\frac{1}{2}$ per cent 4 year bonds of the Corporation, the bonds to be sold to the highest bidders with payment on September 3, 1935. These bonds are to be fully guaranteed by the United States. Tenders received amounted to \$85,592,000, of which \$85,262,000 were accepted at an average price of approximately 99, giving an average yield of about 1.76 per cent.

BILLS AND COMMERCIAL PAPER

Continued dullness characterized the market for bankers acceptances during August. Sales of bills by dealers were confined for the most part to a small group of the larger banks. The rate in almost all cases was $\frac{1}{8}$ per cent, as only a few scattered transactions involved bills of longer than 90 day maturity. The volume of bills outstanding at the end of July amounted to \$321,000,000, a decline of \$22,000,000 during the month, due chiefly to a \$10,000,000 reduction in domestic warehouse credits and a \$7,500,000 drop in export bills, the two classifications which have been the principal factors in the downward movement of the past 8 months. Accepting banks' holdings of bills were reduced during July by about the same amount as total bills outstanding, and continued to represent more than 90 per cent of the total.

August drawings of commercial paper by commercial and industrial concerns were reported to have been in somewhat larger volume than in July, but supplies in general continued to be considerably smaller than the amount for which bank investment inquiry was made. The rate for prime paper remained at $\frac{3}{4}$ per cent. At the end of July commercial paper houses had \$163,600,000 of paper outstanding, as against \$159,300,000 at the end of June. The amount outstanding, however, was about 3 per cent below the level of a year ago in July, the first time since August 1933 that the volume has been less than a year previous.

Security Markets

Stock prices advanced further during the first two and one-half weeks of August and there was a sizable increase in the activity of the market, the turnover on the New York Exchange on a number of days approaching or exceeding 2 million shares. Industrial and railroad shares rose 4 to 5 per cent during this period while public utility stocks advanced about 18 per cent, and the advance in prices since March was extended to about 38 per cent in the case of the industrials and railroads and to over 100 per cent in the case of the public utilities. At the levels then reached industrials were the highest since 1931. The other two major groups, while the highest in some months, did not rise above levels reached in 1934. In the second half of August, however, prices of all these groups of stocks turned downward, especially the public utilities, and toward the close of the month prices were little different than at the opening of the month. Bank stocks followed a somewhat similar course; around the middle of the month the average price of leading New York City bank stocks reached the highest point since June 1933, some 27 per cent above the quotations prevailing at the opening of July, but in the second half of August prices moved irregularly lower.

The decline in prices of high grade corporation bonds, indicated by the diagram showing yields on Government and corporate bonds, amounted to about $1\frac{1}{4}$ points in August, which together with the preceding decline in July makes a total decrease of about $2\frac{3}{4}$ points from the year's high reached early in July. Somewhat less high grade bonds were little changed on the average during August, while medium and lower grade issues advanced during the period when stock prices were rising, but subsequently declined slightly. As the net result of the diverse movements during August, corporation bond prices in general showed little change from quotations at the end of July.

New Financing

A marked decline in the volume of public offerings of new securities occurred during August, following the rather large volume of security issues which reached the market during the preceding four months. The curtailment of new issues may be attributable in part to the fact that quotations of some of the corporation bonds floated in recent months have declined below the issue prices, perhaps due partly to the rapid rate of emission as well as the very close adjustment of coupon rates and prices of new issues to market quotations for old seasoned issues, and partly to the moderate reaction in the general market for high grade issues during the past month.

The total for domestic corporate security financing dropped to less than \$150,000,000 in August, as compared with more than \$500,000,000 in July, but compared favorably with the amounts offered during the previous four months and of course was still in marked contrast with the almost complete absence of corporate issues in the previous two years. Railroad financing was represented in larger volume than in some time by the offering of \$50,000,000 Pennsylvania Company 4 per cent 28 year secured bonds at par, the proceeds of which will be used to retire in November $4\frac{3}{4}$ per cent bonds

due in 1963. In addition, \$15,282,000 of equipment trust certificates of the Pennsylvania Railroad Company were floated during the month. Among other corporate offerings the largest was \$25,000,000 of Cudahy Packing Company issues, yielding 3.75 to 4.00 per cent, which were largely for refunding purposes.

The largest single issue of the month was in the foreign field, namely \$76,000,000 of Dominion of Canada $2\frac{1}{2}$ per cent bonds due in 1945, which were sold at a price of $97\frac{3}{4}$. The proceeds from the sale of these bonds will be used to pay off \$50,000,000 of 2 per cent notes maturing September 1, 1935, which were acquired by American banks at a time when unfavorable conditions made impracticable the refunding of a maturing issue in the market, and also to redeem \$26,000,000 of $4\frac{1}{2}$ per cent Canadian National Railway Company bonds called for payment September 15, 1935.

In domestic State and municipal financing, the absence of any large issue of securities made the August total the smallest in some months.

Business Profits

For the April to June quarter of this year, aggregate net profits of 269 industrial and mercantile concerns whose reports have become available were approximately 10 per cent larger than the earnings during the corresponding period of 1934. The outstanding percentage increases in profits—those in excess of 40 per cent—were reported by the motion picture and amusement, oil, automobile, automobile accessory, and electrical equipment groups. There were two groups, however—railroad equipment and shipping—which reported combined deficits for this period, whereas last year there were no groups showing deficits. The combined profits of all groups exceeded those of previous years through 1931, but several groups failed to reach the 1931 level of earnings; the largest declines in earnings compared with that year occurred in the chemical and drug, and food and food products groups, both of which showed smaller profits in 1935 than in the 1934 quarter.

Profits of the 388 industrial companies that have issued reports on their earnings for the first half year totaled 15 per cent more than a year ago, and 22 per cent more than in 1931, but were materially less than in 1930 and only about one-half as large as in the preceding period of active business. The improvement was by no means uniform, nine of the twenty-five reporting groups showing smaller earnings this year than last. The number of companies whose operations continued to result in deficits—22 per cent of the total—was the same as last year although the concerns were not the same in all cases. Approximately 55 per cent of the companies reported improved earnings between 1934 and 1935, either increasing profits, reducing deficits, or showing some profit this year instead of continuing last year's losses.

The Class I railroads as a group had a deficit in the first half of 1935, nearly three times as large as in 1934, and about one-half as large as in 1932, which was the low point of railroad earnings. Total operating revenues of the railroads were slightly larger than last year but operating expenses were increased, due partly to the restoration of previous wage cuts on April 1, with the

result that the deficit after payment of bond interest and other fixed charges was increased.

Net income of public utility companies other than telephone companies during the first half year again was slightly smaller than in the previous year, although a slight upturn occurred during the second quarter. As compared with 1931, net income this year was about 31 per cent smaller, despite a substantial growth in the use of facilities. For telephone companies, only figures for net operating income, that is, before payment of bond interest, are available; these show a decline of about 3 per cent between 1934 and 1935, following an increase of 14 per cent between 1933 and 1934.

(Net profits in millions of dollars)

Corporation group	Second Quarter				First six months			
	1931	1933	1934	1935	1931	1933	1934	1935
Automobiles.....	61.1	47.7	41.3	61.1	89.7	45.5	69.9	99.0
Automobile parts and accessories (excl. tires).....	8.5	5.9	9.9	14.2	15.1	0.6	19.5	31.8
Aviation.....	0.7	1.1	0.2	0	1.6	1.2	0.3	0.5
Building supplies.....	1.9	1.2	0.8	1.0	6.1	4.0	2.7	3.9
Chemicals and drugs.....	27.3	17.3	24.7	24.2	56.7	31.1	50.8	50.0
Clothing and textiles.....	0.1	0.8	0.3	0	1.4	1.6	2.0	1.3
Coal and coke.....	0	1.4	0.5	0.2	0.6	2.4	2.2	1.2
Electrical equipment.....	11.6	0.4	7.3	10.5	19.9	2.1	10.4	19.1
Food and food products.....	35.6	28.7	27.2	20.8	91.2	61.7	65.9	51.9
Household equipment.....	3.1	2.7	3.1	2.6	21.5	10.0	16.1	15.7
Leather and shoes.....					5.6	5.4	7.1	5.5
Machinery and tools.....	1.5	0.9	3.1	3.8	4.4	6.7	4.1	6.9
Metals and mining (excl. coal and coke).....	4.4	4.8	10.2	10.6	10.7	6.1	26.1	26.3
Motion pictures and amusement.....	2.4	2.0	1.0	2.4	0.1	4.5	3.4	5.1
Office equipment.....	2.7	1.5	3.5	3.6	5.2	1.6	7.1	7.3
Oil.....	26.9	7.8	11.7	19.1	38.9	32.3	24.9	32.1
Paper and paper products.....	1.1	0.4	0.7	0.8	2.2	0.5	1.4	1.8
Printing and publishing.....	3.8	0.4	2.4	2.5	11.3	2.3	5.9	6.9
Railroad equipment.....	2.9	1.6	1.5	0.3	7.5	3.9	1.6	0.9
Rubber and tires.....					0.9	3.3	4.1	4.6
Shipping.....	0.9	0.4	0	0.2	0.3	0.2	0.5	0.9
Steel.....	8.2	14.3	20.4	10.0	17.1	50.9	14.7	19.0
Stores.....					10.1	4.9	15.6	16.5
Tobacco.....	1.4	0.6	1.3	0.8	2.9	0.5	1.7	1.3
Miscellaneous.....	7.0	5.8	6.4	8.3	22.6	13.9	24.3	29.9
Total { 269 cos. 2nd quar. 388 cos. 1st half.....	153.1	89.3	177.5	196.0	357.8	77.0	380.7	437.6
149 Class I Railroads Net income.....	*	6.3	7.9	18.4	*	101.2	23.2	62.0
59 Telephone companies, net operating income.....	*	*	49.4	48.3	*	85.3	96.9	93.7
66 Other public utilities Net income.....	85.6	62.7	57.8	59.2	179.7	131.2	125.5	124.9

— Deficit. *Not available.

Foreign Exchanges

The rates for the principal European currencies showed considerable stability during August. The French, Dutch, and Swiss exchanges moved within a narrow range, remaining continuously above their lower gold points. The guilder, which ruled weakest among the gold bloc exchanges, showed a moderate reaction in the first ten days of August following its sharp recovery at the end of July. All of the European gold currencies were rather firm around the middle of the month. Owing to large arrivals of gold in London from India and to the cessation of purchases for account of private hoarders, the premium on gold in the London bullion market relative to the quotations for the European gold exchanges nearly disappeared during August, and for the first time in several months moderate pur-

chases of gold were reported to have been made in London for shipment to France.

The pound sterling continued to show an upward tendency during the past month, rising from \$4.95½ on July 31 to a high of \$4.98½ during the course of trading on August 14. In the second half of the month the rate was quite stable, fluctuating between \$4.97 and \$4.98¾. In previous months advances in sterling have usually occurred during periods of financial and monetary disturbance in one or more of the gold bloc countries, but in August the firmness of the pound appeared to be related to developments in the London silver market rather than to events in the gold bloc countries.

Closing Cable Rates at New York

Exchange on	Aug. 31, 1934	July 31, 1935	Aug. 29, 1935
Belgium.....	\$.2381	\$.1692	\$.1686
Denmark.....	.2230	.2214	.2220
England.....	4.9900	4.9563	4.9738
France.....	.06695	.06626	.06618
Germany.....	.3990	.4037	.4027
Holland.....	.6875	.6802	.6779
Italy.....	.0870	.0821	.0820
Norway.....	.2510	.2491	.2499
Spain.....	.1388	.1373	.1371
Sweden.....	.2575	.2557	.2564
Switzerland.....	.3314	.3275	.3264
Canada.....	1.0206	.9987	.9975
Argentina.....	.3328	.3304	.3316
Brazil.....	.0857	.0857	.0863
Uruguay.....	.8000	.8040	.8050
Japan.....	.2987	.2923	.2944
India.....	.3783	.3747	.3760
Shanghai.....	.3569	.3800	.3700

Gold Movement

During the first week of August a total of \$28,800,000 of gold was received from Holland, as a result of the weakening of Dutch exchange in the latter part of July. In addition, \$5,000,000 of gold was received during August from Canada, \$4,600,000 from India, and \$870,000 from China.

Supplementing these imports, \$1,800,000 of gold was released from earmark for foreign account at this bank in August, and there were further deposits of newly mined domestic gold and scrap gold, fairly substantial in amount, at the mints and assay offices. Consequently a total of approximately \$55,000,000 was added during August to the monetary gold stock of this country.

Central Bank Rate Changes

Effective August 3 the discount rate of the Netherlands Bank was lowered from 6 to 5 per cent, following a firming of guilder exchange and a cessation of the gold export movement which in July had led to a rapid increase in the bank rate from 3 per cent to 6. As of the 9th the Bank of France rate was reduced further from 3½ to 3 per cent. The National Bank of Bulgaria lowered its rate on the 15th from 7 to 6 per cent, and the National Bank of Hungary reduced its rate from 4½ to 4 per cent effective August 29. On August 12 the Bank of Italy raised its discount rate from 3½ to 4½ per cent, and on August 22 the discount rate of the central bank of Denmark (National Bank in Copenhagen) was raised from 2½ to 3½ per cent.

Information has been received of the following rate increases at the Central Bank of Chile, effective June 12: discount rate for member banks, from 4 to 4½ per cent; for the public, from 5½ to 6 per cent.

Farm Production and Income

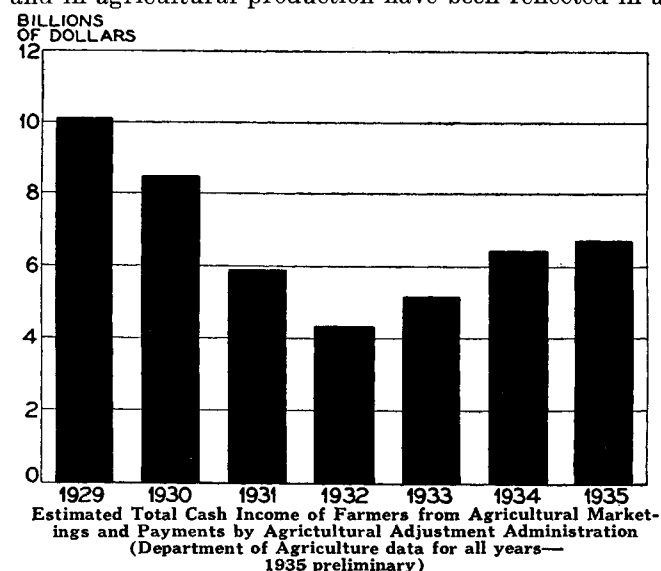
The August 1 Government crop report indicated that acreage to be harvested this year, although larger than in 1934, would be about 6 per cent below the average for the 10 years previous. However, yields per acre of principal crops were estimated as nearly 3 per cent above the average prior to 1934. As shown in the table below, production of the leading crops for this year was estimated to be considerably larger than a year ago, but in most cases below the average of 1928-1932. Total wheat production was estimated at 607,678,000 bushels, reflecting a sharp decline during July due to damage to the spring crop from unusually wet weather and the infestation of black rust. The corn crop estimate, on the other hand, was increased about 11 per cent during July to 2,272,147,000 bushels, which is 290,000,000 bushels below the five year average. Less than average crops were forecast for tobacco and cotton, although in the case of the latter the indicated crop is more than 2,000,000 bales larger than the 1934 crop. The hay crop appeared to be the largest in 6 years and several of the important truck crops such as apples, potatoes, and beans were also estimated to be larger than the 1928-1932 average.

August 1 Indicated Production of Principal Crops

	As percentage of	
	1934 Harvest	1928-1932 Av. Harvest
Cotton.....	122	80
Wheat.....	122	71
Corn.....	165	89
Oats.....	226	98
Hay (tame).....	144	108
Barley.....	243	101
Potatoes.....	98	104
Tobacco.....	117	85
Apples.....	140	105
Peaches.....	114	93

Yields per acre of the important crops in New York State have been estimated at about 9 per cent above the average for 1921-1930. Crop prospects in the State improved during July, and indicated production of the leading crops is not only larger than last year but in most cases is also larger than the average for the years 1928-1932.

Increases over last year in prices of farm products and in agricultural production have been reflected in an



increase in cash income to be received by farmers this year which has been estimated by the Department of Agriculture at approximately \$6,700,000,000, as compared with \$6,387,000,000 in 1934. As is shown in the accompanying diagram, this figure, which includes rental and benefit payments, payments for the exercise of cotton options and for the emergency purchases of livestock in drought areas by the Agricultural Adjustment Administration, is the largest in five years. In the first seven months of the current year, farmers' receipts from marketings were about \$153,000,000 larger than in the corresponding period of 1934, and \$127,000,000 more was received this year than last from the Agricultural Adjustment Administration.

Commodity Prices

The general level of wholesale commodity prices moved higher during the first three weeks of August, and although several of the actively traded commodities receded somewhat in the remainder of the month, net gains predominated for the month as a whole. A substantial advance occurred in raw silk prices, the quotation reaching \$1.80½ a pound on August 19, the highest since October 1933, and after some subsequent decline, the price closed the month at \$1.75½ a pound, up 14 cents from the end of July. Similarly, hog prices reached a new high for several years in the first three weeks of August, and, although there was some recession in the latter part of the month, remained higher than at the end of July. Sugar prices advanced sharply after the import quota for Cuban sugar for 1935 was exhausted on August 19, and the price of the raw product rose to 3.50 cents a pound, the highest since October 1933. The spot quotation for Number 1 Northern wheat at Minneapolis advanced during the month to \$1.30⅝ a bushel, the highest since January 1930 but later declined to \$1.28 a bushel thus showing a net gain of 5¼ cents; wheat futures, however, moved lower, the December contract at Chicago receding 6¾ cents to 89 cents a bushel.

The price of copper was increased ½ cent on August 19 to 8½ cents a pound, the first change since the price was reduced from 9 to 8 cents on June 27, following the abandonment of the N.R.A. Code. Zinc advanced 20 points to 4.60 cents a pound, the highest since November 1933, and net gains for the month were shown also in prices of scrap steel, lead, hides, steers, and rayon.

Cotton prices receded moderately during the first three weeks of August, and following the first announcement on August 22 concerning the proposed basis for Government loans on the 1935 crop, prices declined sharply, the spot quotation decreasing to 10.85 cents a pound. The second announcement on cotton loans raising the loan value from 9 to 10 cents and guaranteeing 12 cents to the farmer was followed by a slight firming of prices, but subsequently spot cotton declined to a new low since last March of 10.80 cents, as compared with 12.10 cents a pound at the end of July. The price of silver declined 2⅔ cents to 65⅔ a fine ounce during August, as compared with about 50 cents an ounce a year ago, and with a high of 81 cents reached last April. Declines for the month occurred also in prices of corn and tin.

Building

In the Metropolitan New York and upstate New York area residential building contracts awarded during July

held at the level of the previous three months and were more than double the total for July 1934. Public works and utility projects increased considerably from June to July, due to railroad construction, and were in the largest volume since last October. Other nonresidential contracts were little changed between June and July and were larger than last year. For the first seven months of this year, total contracts of \$167,000,000 were about \$6,000,000 larger than in the corresponding period of 1934; residential contracts totaling \$64,000,000 were \$25,000,000 larger, but public works and utility projects amounting to \$38,000,000 were \$13,000,000 smaller, and other nonresidential construction work of \$65,000,000 was \$6,000,000 less than last year.

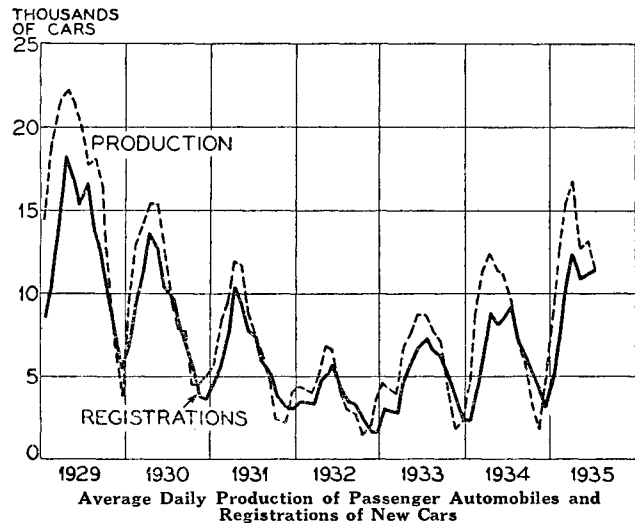
For the 37 States covered by the full F. W. Dodge Corporation report, residential contracts in July were about 2½ times larger than a year ago, having shown less than the usual seasonal recession from the previous month. Public works and utility projects showed a large unseasonal advance from June to July and were in larger volume than a year ago for the first time since July 1934, the increase representing heavier highway, sewerage, water front, and railroad construction. Other nonresidential contracts were slightly smaller than in June of this year or July of a year ago. Reflecting the increase in residential contracts, private construction work this year was in larger volume than at any time during the past 3½ year period for which comparable data are available, and constituted almost 60 per cent of all contracts, as against about 50 per cent a year ago. Total contracts awarded during the first seven months of 1935 amounting to \$856,000,000 were \$118,000,000 smaller than in the same period of 1934; residential construction totaled \$257,000,000, an increase of \$105,000,000 over last year, while public works and utility contracts of \$283,000,000 were \$200,000,000 less than a year ago, and other nonresidential work of \$316,000,000 was \$23,000,000 smaller.

Data for the first three weeks of August indicate a more than seasonal falling off in the rate of residential construction from the comparatively high level of other recent months, but both public works and other non-residential contracts increased materially during this period in contrast to usual seasonal declines.

Indexes of Business Activity

Available data for the first half of August indicate that the distribution of goods was maintained at least at the level of the previous month. Advances of approximately average proportions for this time of year occurred in the railroad movement of merchandise and miscellaneous freight and in bulk freight shipments, the rise in bulk loadings being due to substantial increases in grain, forest products, and livestock shipments. More than the usual seasonal gain appears to have occurred in department store sales in the New York Metropolitan area.

During July, little change in the aggregate was evident in this bank's seasonally adjusted indexes of general business activity. Shipments of bulk freight over the railroads showed a sizable decline as a result of reduced coal shipments, and mail order house sales and chain store trade receded by somewhat more than the usual seasonal proportions. The railroad movement of



merchandise and miscellaneous freight, however, held at approximately the level prevailing since May, and the volume of check transactions outside New York City, department store sales, advertising, and life insurance sales showed virtually no change other than seasonal.

The principal exception to the general tendency in July was an increase in registrations of new passenger automobiles which indicate roughly the number of retail sales of new passenger cars to consumers. This increase was contrary to the usual seasonal movement and brought registrations to the highest level for the corresponding month since 1929. Registrations and also production of passenger automobiles, on an average daily basis, are shown in the accompanying diagram from 1929 to date. Since last December, production had been proceeding at a higher rate than registrations indicating an accumulation of stocks in dealers hands, as usual in the first half of the year. In July, production declined to about the level reported for registrations.

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

	1934	1935		
	July	May	June	July
<i>Primary Distribution</i>				
Car loadings, merchandise and misc.....	57	58	58	58
Car loadings, other.....	60	59	63	52
Exports.....	52	47	53	52 _p
Imports.....	62	69	76	80 _p
Wholesale trade.....	91	85	82	93
<i>Distribution to Consumer</i>				
Department store sales, U. S.....	71	72	76	76
Department store sales, 2nd Dist.....	67	69	70	69
Chain grocery sales.....	66	60	61	59
Other chain store sales.....	78	77	85	78
Mail order house sales.....	62	74	80	71
Advertising.....	58	64	58	58
New passenger car registrations.....	54	57	62	66 _p
Gasoline consumption.....	69	71	70	
<i>General Business Activity</i>				
Bank debits, outside New York City.....	62	64	66	66 _p
Bank debits, New York City.....	48	42	46	50
Velocity of demand deposits, outside New York City.....	72	65	66	68
Velocity of demand deposits, New York City.....	52	41	45	49
New life insurance sales.....	63	54	55	56
Factory employment, United States.....	81	82	81	82 _p
Business failures.....	45	43	44	42
Building contracts.....	21	20	25	26
New corporations formed in N. Y. State.....	66	55	59	60
General price level*.....	138	143	144	145 _p
Composite index of wages*.....	182	186	188	188 _p
Cost of living*.....	137	140	139	140

_p Preliminary. * 1913 average=100

Production

From preliminary evidence there appears to have been little change, on the whole, in the rate of activity in basic industries in August. In the automobile industry operations were sharply reduced by shutdowns connected with vacations and model alterations, and bituminous coal mining during the first half of the month did not manifest the usual seasonal expansion. However, steel mill operations gained during August and at the end of the month the operating ratio was approximately 50 per cent of capacity, as compared with a 39 per cent average for July and a 52 per cent average for February, the high point of the year. Activity in the cotton textile industry, while still on a restricted basis, also increased somewhat in August, and electric power production continued the upward movement begun in May.

The movement of industrial activity from June to July was marked by a somewhat smaller contraction in the volume of manufactures than usually occurs in July, but there was a sizable reduction in output of coal from the relatively high level that had prevailed in June. As a net result the Federal Reserve Board index of industrial production remained at 86 in July, unchanged from the preceding month. Cotton goods manufacture and automobile output decreased in accord with the experience of past years, and meat packing operations remained at a low level, but steel production was on an upgrade during the month, following the Independence Day shutdown, and the average rate of operations for the month as a whole was only slightly below that of June. Contraction was also of less than usual seasonal proportions in wool mills; in silk and rayon mills, as well as in shoe plants, operations were increased. Machine tool orders continued to rise and the seasonally adjusted index reached the highest point since January 1930.

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

	1934		1935	
	July	May	June	July
Metals				
Pig iron.....	37	47	45	45
Steel.....	38	54	53	56
Lead.....	46	52	48	50
Zinc.....	48	63	67	68
Automobiles				
Passenger cars.....	52	48	58	59 _p
Motor trucks.....	74	73	102	101 _p
Fuels				
Bituminous coal.....	70	72	85	60 _p
Anthracite coal.....	66	82	112	67 _p
Petroleum, crude.....	71	68	69	69 _p
Petroleum products.....	67	65	67	
Electric power.....	73	72	74 _p	75 _p
Textiles and Leather Products				
Cotton consumption.....	69	73	71	72
Wool mill activity.....	78	113	116	120 _p
Silk mill activity.....	63	56	55	61 _p
Rayon deliveries*.....	85	74	85	104 _p
Shoes.....	99	104	96 _p	105 _p
Foods and Tobacco Products				
Meat packing.....	126	76	70	72
Wheat flour.....	79	75	83	78
Refined sugar deliveries.....	62	87	68	63 _p
Tobacco products.....	83	82	83	86
Miscellaneous				
Cement.....	43	45	44	42
Tires.....	51	53	50	
Newsprint paper.....	74	74	73	69 _p
Machine tools.....	33	60	76	106

_p Preliminary * For quarter ended

Employment and Payrolls

In New York State, factory employment and payrolls showed declines of somewhat less than the usual seasonal proportions from the middle of June to the middle of July, following two months in which more than seasonal decreases had occurred. The food industry showed the most pronounced employment gain in July owing to large seasonal increases at canning and preserving factories. Decreases in the number of workers employed were reported in the clothing, metals and machinery, and stone, clay, and glass products industries.

Employment and payrolls in manufacturing industries throughout the United States also showed a smaller reduction between mid-June and mid-July than has been shown in most previous years. Declines in the number of workers employed occurred in the automobile industry, owing to the holiday shutdown and the usual slackness prior to the beginning of work on new models, and reductions were reported in employment in the metals and metal products groups other than machinery, and in the textile and clothing industries. These recessions, however, were offset to a considerable extent by gains in working forces in machinery, lumber, shoe, and food plants. The number of persons employed in production of six important construction materials reached the highest level since February 1932, after allowance for usual seasonal variation.

Among the nonmanufacturing industries, employment in building construction activities rose somewhat, but the number of workers engaged in coal mining was sharply reduced and employment in retail trade declined in accordance with the usual seasonal tendency.

The number of workers employed on projects financed by Federal emergency outlays was reduced somewhat during July. A decrease of more than 180,000 workers engaged by the Federal Emergency Relief Administration was offset in part, however, by the further enrollment of approximately 53,000 men at Civilian Conservation Camps.

Foreign Trade

This country's foreign merchandise trade showed increases during July, both as compared with the previous month and with a year ago. Exports amounted to \$173,000,000 and imports to \$178,000,000, resulting in a small import balance, as in April and May. The value of July exports exceeded that of a year ago by 7 per cent and was larger than in the corresponding month of any year since 1931. Imports, continuing the recent tendency toward greater expansion than exports, were 40 per cent above a year ago and larger than in July of any year since 1930.

Among the exports, most of the principal food and farm products were shipped abroad in smaller quantity and value than in July 1934, continuing the decline of the past year, during which the volume of exports of agricultural products declined to the lowest level since 1877, according to the Department of Agriculture. Exports of raw cotton declined 8 per cent in volume from a year ago, which, however, is a smaller reduction than in most recent months. While the demand for American cotton was less than a year ago in the United Kingdom, Germany, and countries of the Far East, it was larger in a number of other cotton importing coun-

tries, notably France. Exports of unmanufactured tobacco were substantially reduced in quantity from last year's volume, but showed a gain in value of 30 per cent, due to a large increase during the past twelve months in the price of tobacco. Shipments abroad of passenger automobiles were 16 per cent smaller in number than in July 1934, indicating a reversal of the comparatively active foreign demand for them in the first half of the year. On the other hand, the number of motor trucks and busses exported showed an increase over a year ago of 62 per cent. Considerable gains, both in quantity and value, occurred also in exports of crude and refined petroleum, fertilizers, and electric refrigerators.

Imports during July of a majority of important products continued to show advances over a year ago. Sugar receipts were more than six times the comparatively low volume of last year, when the sugar quota for the Philippines was temporarily exhausted. Imports of wool and flaxseed were more than double the quantities of a year ago. There were likewise sizable increases in quantity receipts of copper, nickel, burlap, raw silk, food products, and rubber, ranging from a gain of 77 per cent in copper to 13 per cent in crude rubber. Exceptions to the general tendency occurred in imports of fertilizers, tin, woodpulp, and newsprint paper, all of which showed reductions compared with last year.

Department Store Trade

During the first half of August, total sales of the reporting department stores in the Metropolitan area of New York were 1.8 per cent higher than in the corresponding period last year, and more than the usual seasonal expansion appears to have occurred from July to August. In Northern New Jersey sales continued to run below a year ago, but New York City stores showed an average increase of 3 per cent.

Total July sales of the reporting department stores in this district were 9.6 per cent higher than a year ago, and even after allowing for one more shopping day this year than last, the increase for July was the largest since December. The New York City department stores registered the most substantial advance in average daily sales since March 1934, and the Buffalo stores reported the largest increase since December. Stores in the Capital District, Northern New York State, Southern New York State, and Westchester and Stamford also reported the largest increases in average daily sales in several months, and the decline in average daily sales of the Hudson River Valley District stores was the smallest in five months. Average daily sales in the Rochester, Syracuse, and Bridgeport stores, however, showed smaller increases over a year ago than in June, and average daily sales in the Northern New Jersey stores showed a decrease from last year, following a considerable advance in June. Sales of the leading apparel stores in this district were 15.6 per cent higher than a year ago, and on an average daily basis showed the most favorable year to year comparison since March 1934.

Department store stocks of merchandise on hand, at retail valuation, continued somewhat below a year ago, while apparel store stocks remained larger. Collections of accounts outstanding at the end of the previous month

were higher in July 1935 than in July 1934 in the department stores in all localities and also in the apparel stores.

Locality	Percentage change July 1935 compared with July 1934		Per cent of accounts outstanding June 29 collected in July	
	Net sales	Stock on hand end of month	1934	1935
New York.....	+11.9	- 3.0	47.7	48.8
Buffalo.....	+12.9	- 6.4	43.4	47.0
Rochester.....	+ 7.5	- 3.1	42.3	44.2
Syracuse.....	+ 8.9	- 8.8	32.1	35.0
Northern New Jersey.....	0	- 6.7	40.1	41.0
Bridgeport.....	+ 5.3	+ 3.1	37.0	38.0
Elsewhere.....	+ 6.6	-13.2	25.3	28.0
Northern New York State.....	+ 7.4	.....	.....	.....
Southern New York State.....	+ 6.6	.....	.....	.....
Hudson River Valley District.....	- 0.6	.....	.....	.....
Capital District.....	+ 8.8	.....	.....	.....
Westchester and Stamford.....	+ 8.2	.....	.....	.....
All department stores.....	+ 9.6	- 4.1	43.2	44.6
Apparel stores.....	+15.6	+ 5.7	40.6	42.7

Wholesale Trade

July sales of the reporting wholesale firms in this district were 13.6 per cent higher than last year, the largest percentage increase since December. The drug, paper, and jewelry concerns reported the largest increases in more than a year, and sales of the grocery and shoe firms were ahead of a year ago by the largest percentages in 7 or 8 months. The moderate gain in sales recorded by the hardware concerns was the most favorable year to year comparison since February, and the rather substantial gain in sales of men's clothing was the largest in 3 months. The increase in yardage sales of silk goods reported by the National Federation of Textiles followed 6 months in which declines were shown. The small advance in diamond sales followed a much larger increase in June, and the cotton goods and stationery firms reported sales lower this year than last.

Stocks of merchandise on hand held by the grocery, hardware, and diamond concerns continued higher than a year ago, but stocks held by the drug and jewelry firms showed the largest reductions in over a year.

Commodity	Percentage change July 1935 compared with July 1934		Per cent of accounts outstanding June 29 collected in July	
	Net sales	Stock end of month	1934	1935
Groceries.....	+10.9	+ 4.5	90.6	94.3
Men's clothing.....	+15.0	.....	38.0	46.4
Cotton goods.....	- 8.6	.....	37.9	42.8
Silk goods.....	+ 7.8*	.....	63.8	62.9
Shoes.....	+26.7	.....	39.6	41.4
Drugs.....	+27.2	-10.5	18.0	23.0
Hardware.....	+ 8.2	+ 9.2	45.9	47.4
Stationery.....	- 5.7	.....	47.5	57.9
Paper.....	+19.8	.....	44.6	46.1
Diamonds.....	+ 5.2	+21.0	27.9	28.4
Jewelry.....	+31.9	- 8.4		
Weighted average.....	+13.6	.....	54.4	58.4

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

FEDERAL RESERVE BANK OF NEW YORK

MONTHLY REVIEW, SEPTEMBER 1, 1935

Business Conditions in the United States

(Summarized by the Federal Reserve Board)

FACTORY employment and output were maintained in July at the June level, though usually there is a considerable decline at this season. Activity at mines showed a substantial decrease, reflecting a sharp reduction in output of coal.

PRODUCTION AND EMPLOYMENT

The Federal Reserve Board's seasonally adjusted index of manufactures showed an increase in July, while the index of mineral production showed a marked decline, with the consequence that the index of industrial production remained unchanged at 86 per cent of the 1923-25 average. For the first seven months of the year industrial output was 6 per cent larger than a year ago. Activity at steel mills, which had declined during June, advanced considerably during July and the first three weeks of August and there was also a substantial increase in the output of lumber. Automobile production showed a decrease from the high level prevailing earlier in the year, reflecting in part seasonal developments. Output of textiles increased somewhat in July, owing chiefly to increased activity at silk mills. In the woolen industry the recent high rate of activity continued, while at cotton mills daily average output declined by about the usual seasonal amount. Meat packing remained at an unusually low level. At mines, output of bituminous coal decreased sharply in July, following an advance in the preceding month, and there was also a sharp reduction in output of anthracite.

Factory employment, which usually declines at this season, showed little change from the middle of June to the middle of July. Employment increased somewhat in the machinery, lumber, furniture, and silk industries and there was a large seasonal increase in the canning industry. Decreases of a seasonal character were reported for establishments producing cotton goods and women's clothing, while in the automobile industry employment declined by more than the usual seasonal amount. At coal mines employment showed a marked decrease in July.

The total value of construction contracts awarded, as reported by the F. W. Dodge Corporation, increased further in July and the first half of August, reflecting an increase in nonresidential projects. Residential building continued in considerably larger volume than a year ago, with increases from last year reported for most sections of the country.

Department of Agriculture estimates as of August 1 indicate a cotton crop of 11,800,000 bales, about 2,200,000 bales larger than the unusually small crop last year. The indicated wheat crop, while larger than a year ago, is considerably smaller than the five year average for 1928-32. Crops of corn and other feed stuffs are substantially larger than last season.

DISTRIBUTION

Daily average volume of freight car loadings declined in July, reflecting a marked decrease in shipments of coal. Department store sales showed a seasonal decline and the Board's adjusted index remained unchanged at 80 per cent of the 1923-25 average.

PRICES

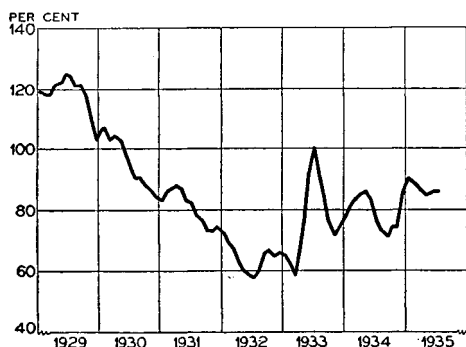
The general level of wholesale commodity prices showed little change during July and advanced slightly in the first three weeks of August. For the seven week period as a whole there were substantial increases in the prices of hogs, lard, silk, and scrap steel, while cotton declined. Wheat, after advancing considerably during the latter part of July, declined somewhat in the early part of August.

BANK CREDIT

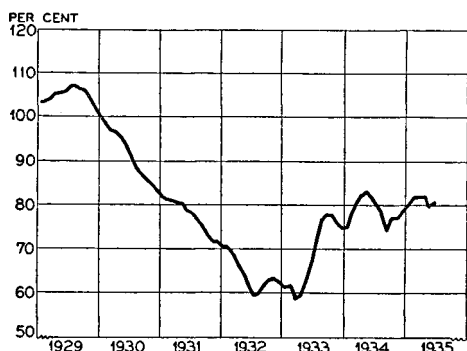
Excess reserves of member banks increased by \$340,000,000 in the five week period ended August 21 as a consequence principally of a reduction in the balances held by the Treasury with Federal Reserve Banks. There were also moderate imports of gold from abroad.

Total loans and investments of reporting member banks in leading cities showed a net decline of \$290,000,000 during the four weeks ended August 14. Holdings of direct obligations of the United States Government decreased by \$220,000,000 following a substantial increase in the middle of July. Loans declined by \$180,000,000 in the latter part of July but subsequently advanced by \$40,000,000, while holdings of Government guaranteed and other securities increased by \$70,000,000 in the four week period.

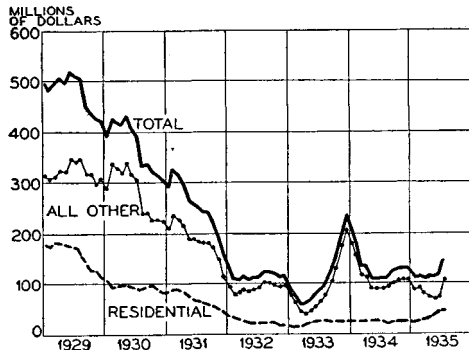
Yields on Government securities rose slightly during this period, while other short term open market money rates remained at low levels.



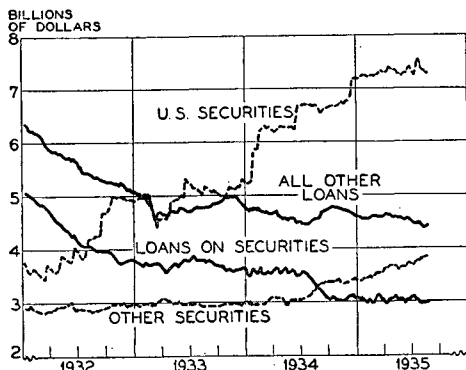
Index Number of Production of Manufactures and Minerals Combined, Adjusted for Seasonal Variation (1923-25 average = 100 per cent)



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



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



Wednesday Figures for Reporting Member Banks (Latest figures are for August 14)