

MONTHLY REVIEW

of Credit and Business Conditions

Second Federal Reserve District

Federal Reserve Agent

Federal Reserve Bank, New York

October 1, 1935

Money Market in September

Apparently influenced by threats of war, a substantial further movement of funds from Europe to the United States for deposit or investment occurred in September, which weakened foreign currencies in this market and led to a movement of gold to this country which has already totaled over \$225,000,000 including amounts actually shipped or engaged for shipment.

The persistent movement of gold to the United States since the devaluation of the dollar, together with the smaller but steadier supplementary supply of monetary gold obtained from domestic sources, is reflected in the changes in the gold stock shown in the accompanying diagram. Gold has flowed to this country in recurrent waves since the early part of last year. After the first movement in response to devaluation of the dollar, these waves appear to have been related largely to changes in political and economic conditions abroad. The total increase in the gold stock of this country since the end of January 1934 will amount to approximately \$2,500,000,000 when the gold now en route to this country has been received.

Accompanying this extraordinarily rapid increase in the gold stock there has been a more than corresponding increase in the reserves of member banks. The reserve balances of all member banks in the Federal Reserve Banks rose from \$2,736,000,000 on February 7, 1934 to \$5,388,000,000 on September 11, 1935, or considerably more than twice the existing reserve requirements, and after a temporary reduction in the third week of September a renewed increase occurred in the latter part of the month. Thus, largely as the result of the heavy inflow of gold, member bank reserves have nearly doubled in less than two years, and the basis has been created for a huge potential expansion of member bank credit.

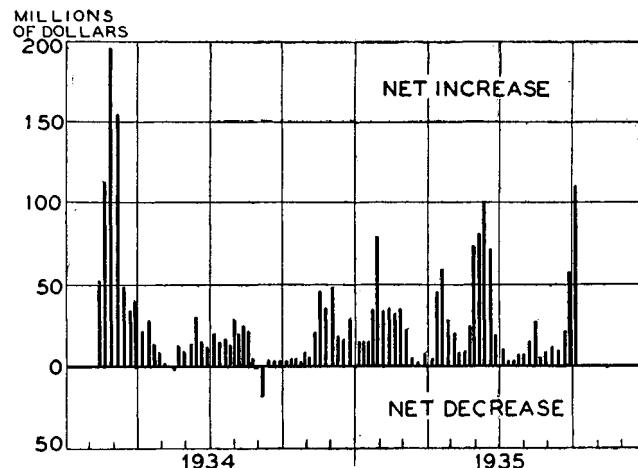
The temporary reduction in member bank reserves in the week ended September 18 was due partly to income tax collections and partly to cash sales of new Government securities on September 16, which considerably exceeded Government interest payments and other disbursements during that week. Under present conditions, when most member banks have substantial amounts of excess reserves, an unusually large proportion of new Government securities is paid for in cash, rather than with deposits credited to the Government. Of the \$512,000,000 of Treasury notes sold on September 16 a little more than half were paid for in cash. The reduction in

member bank reserves resulting from these payments and income tax collections is expected to be temporary, as the resulting accumulation of Government deposits in Federal Reserve Banks will gradually be disbursed by the Treasury and thus will again increase the aggregate amount of member bank reserves.

Another factor tending to cause a temporary reduction in member bank reserve balances is the seasonal demand for currency. In the week ended September 4 the amount of currency reported as in circulation showed an increase of \$77,000,000, and, although there was some retirement of currency after the Labor Day holiday, the amount outstanding on September 25 showed a net increase of more than \$50,000,000 compared with a month earlier. A further increase in the amount of currency in circulation usually occurs during the early part of October, but this year will probably be more than offset in its effect on the total reserves of member banks by the inflow of gold now in progress.

MEMBER BANK CREDIT

Due largely to purchases of the new Government securities issued on September 16, the total loans and investments of weekly reporting member banks showed an increase of nearly \$600,000,000 during the four weeks ended September 25, and reached the highest level in nearly four years. New York City banks reported an increase of \$339,000,000 during the four week period, and their total loans and investments reached the high-



Weekly Changes in United States Monetary Gold Stock since February 1934 (Data for week ending October 2, 1935 partly estimated)

est level since September 1931. In other principal cities throughout the country the loans and investments of reporting member banks showed an increase of \$254,000,000 during the period, and in this case also the volume on September 25 was the highest in several years.

Direct obligations of the United States Government held by New York City banks showed a net increase of \$176,000,000 during the four weeks, and in other weekly reporting banks there was an increase of \$147,000,000. In addition, an increase of \$54,000,000 in Government guaranteed securities was reported, largely by banks outside of New York. Other security holdings of the New York City banks increased \$43,000,000 further, but such holdings by other reporting banks throughout the country showed little change.

Loans other than security loans increased \$63,000,000 further in New York City during the four weeks ended September 25, and in other principal cities there was a further increase of \$57,000,000. Since the low point of the year was reached at the end of July there has been an increase of slightly over \$200,000,000 for all reporting banks, but, toward the end of the period, a part of the increase appears to have represented temporary loans on gold in transit to this country. Comparison with a year ago continues to show a reduction in the total volume of loans other than security loans amounting to about \$150,000,000, but the greater part of this decrease represents a reduction in bankers acceptances held by the reporting banks, rather than a further reduction in ordinary loans to customers. Government financing of domestic storage of commodities has replaced bank financing in substantial amount during the past year, and a considerable further reduction has occurred also in acceptance credits on foreign business.

Security loans in New York City banks, after reaching the lowest point in several months at the end of August, showed a net increase of \$50,000,000 for the four weeks, but security loans of other weekly reporting banks declined slightly to a new low point for recent years.

MONEY RATES

The principal change in money rates during September was a continuation of the moderate increase in yields on Government securities which was reported in August.

Money Rates at New York

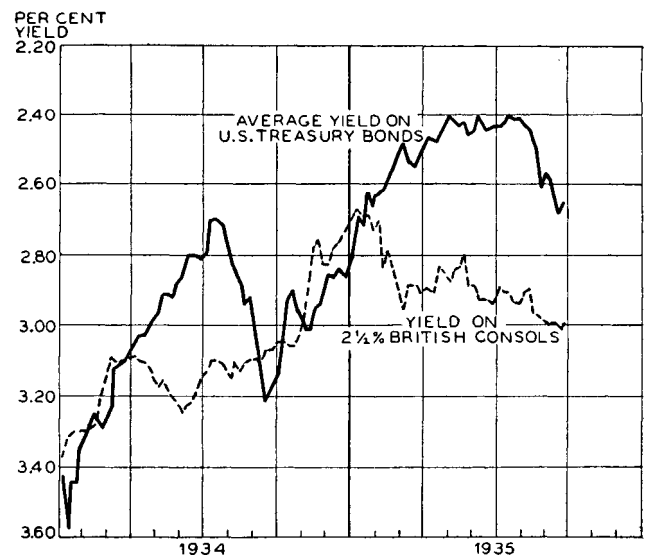
| | Sept. 28, 1934 | Aug. 30, 1935 | Sept. 30, 1935 |
|--|--------------------|-----------------|-----------------|
| Stock Exchange call loans..... | 1 | 1 $\frac{1}{4}$ | 1 $\frac{1}{4}$ |
| Stock Exchange 90 day loans..... | * $\frac{3}{4}$ -1 | * $\frac{1}{4}$ | * $\frac{1}{4}$ |
| Prime commercial paper—4 to 6 months | $\frac{3}{4}$ -1 | $\frac{3}{4}$ | $\frac{3}{4}$ |
| Bills—90 day undorsed..... | 3/16 | 1 $\frac{1}{8}$ | 1 $\frac{1}{8}$ |
| Customers' rates on commercial loans.. | 2.08 | 1.75 | 1.67 |
| (Average rate of leading banks at middle of month) | | | |
| Treasury securities: | | | |
| Maturing June (yield)..... | No yield | No yield | 0.02 |
| Maturing February 1937 (yield)..... | .... | 0.17 | 0.21 |
| Average yield on Treasury notes (1-5 years)..... | 1.82 | 0.79 | 0.96 |
| Average yield on Treasury bonds (more than 5 years to earliest call date)... | 3.18 | 2.59 | 2.67 |
| Average rate on latest Treasury billsales: | | | |
| 182 day issue..... | 0.29 | .... | .... |
| 273 day issue..... | .... | 0.13 | 0.23 |
| Federal Reserve Bank of New York rediscount 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 0.11 by substitution of new issue for an issue maturing within one year. ‡ Average raised 0.01 by inclusion of new issue.

GOVERNMENT SECURITIES

The decline in the Government security market which began in August progressed somewhat further in September before a firmer price tendency developed. At the beginning of the month, the average yield on all outstanding Treasury notes of 1 to 5 year maturity stood at 0.78 per cent and the average yield on outstanding Treasury bonds not callable within 5 years was 2.58 per cent. By September 13, these average yields had advanced gradually to 0.85 per cent and 2.63 per cent, respectively. On September 16, the inclusion of the new note and bond issues and the dropping of a note issue that came within one year of maturity raised average yields by 0.11 per cent for the notes and 0.01 per cent for the bonds to 0.96 per cent and 2.64 per cent, respectively. In the succeeding few days the average note yield rose further to 1.03 per cent, as compared with the recent low of 0.47 per cent, and the bond yield average advanced to 2.71 per cent, as against the recent low of 2.39 per cent. Subsequently, somewhat firmer conditions prevailed in both the note and bond markets, the yield on all Treasury notes averaging 0.96 per cent toward the end of September, and the yield on Treasury bonds averaging 2.67 per cent. On a price basis, the net decline in Treasury bonds amounted to less than $\frac{3}{4}$ of a point in September, which is about one-half of the recession that occurred in August.

The accompanying diagram indicates the comparative movements in prices of United States Government and British Government securities during 1934 and 1935. In both cases, yields are now about 1/3 of one per cent above the lowest levels reached this year, but yields on British Consols are now higher than at the beginning of 1935, while yields on United States Treasury bonds are still lower than at the opening of the year. The largest part of the rise in the yield on British Consols occurred in the first quarter of the year, whereas yields on United States Treasury bonds continued to decline through April, and then held steady until August before showing a material advance.



Yields on United States and British Government Bonds (Scale inverted to show movements of prices)

Early in September, holders of approximately \$1,250,000,000 of Fourth Liberty Loan bonds which had been called for redemption October 15, 1935 were given the privilege of exchanging them for 10-12 year $2\frac{3}{4}$ per cent Treasury bonds, or for $3\frac{1}{2}$ year $1\frac{1}{2}$ per cent Treasury notes. Before the subscription books for the notes were closed, on September 14, \$429,000,000 of Fourth Liberty's were turned in for exchange; the subscription books for new Treasury bonds were still open at the end of September, and \$397,000,000 were issued in exchange for Liberty bonds through September 28. In addition to the exchange of Liberty Loan bonds for new issues of Treasury bonds and notes, the Treasury sold \$512,000,000 of the $1\frac{1}{2}$ per cent $3\frac{1}{2}$ year Treasury notes on cash subscription. Four \$50,000,000 maturities of 182 day Treasury bills were replaced with issues of similar amounts of new 273 day bills at rates which moved upward on successive sales to 0.23 per cent on the issue dated September 25, as compared with 0.13 per cent on the last August issue. Arrangements were made also to obtain \$50,000,000 of new funds through the issuance on October 2 of \$50,000,000 of 166 day bills (due on the March 1936 quarterly tax date) and of \$50,000,000 of 273 day bills to replace a maturity of \$50,000,000 of 133 day bills.

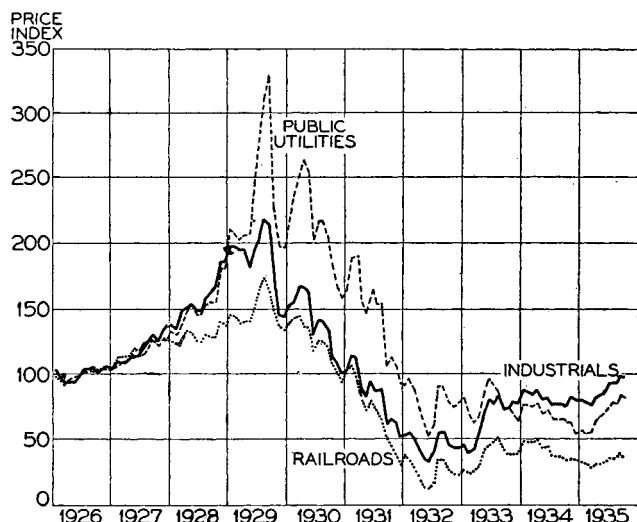
BILLS AND COMMERCIAL PAPER

During September several moderate sized blocks of bills were sold in the market by New York City banks and were quickly resold by the dealers, but on the whole the bill market continued in the inactive state that has prevailed for some time past. Rates likewise were unchanged. The total volume of bills outstanding at the end of August was \$321,800,000, an amount \$900,000 larger than at the end of July, the first increase since last October. There were increases during August of \$5,500,000 in domestic warehouse bills outstanding, \$2,400,000 in import bills, and \$1,400,000 in bills drawn for the purpose of creating dollar exchange, but these increases were largely offset by further decreases of \$4,900,000 in export bills and \$3,400,000 in bills based on goods stored in or shipped between foreign countries.

A moderate increase in the supply of new commercial paper was reported to have occurred during September, reflecting in part at least borrowings by concerns whose operations are associated with the fall movement of crops. Supplies in general, however, were greatly exceeded by the bank investment demand for business notes, which showed no sign of abatement. The prevailing rate for prime four to six month commercial paper continued to be $\frac{3}{4}$ per cent, and in fact a small amount of especially choice paper maturing at the year-end was sold at $\frac{1}{2}$ per cent around the middle of the month. At the end of August commercial paper houses had \$176,800,000 of paper outstanding as against \$163,600,000 at the end of July.

Security Markets

During the first ten days of September a renewed advance occurred in stock prices which raised the general average of quotations to the highest level since July 1933. Industrial stocks as a class reached the highest point since 1931, as the accompanying diagram indi-



Price Indexes of Industrial, Public Utility, and Railroad Stocks
(Standard Statistics weekly indexes; 1926 average = 100 per cent)

cates, but railroad and public utility shares remained below points reached on previous recoveries in 1933 and 1934. During the next week, prices moved without any definite tendency, but on September 19 and 20 there was a substantial decline, accompanying reports of increased tenseness in Europe arising out of the Italian-Ethiopian controversy. In the succeeding part of the month, stock prices recovered a part of the decline, although movements became increasingly irregular. The net result of the month's fluctuations in stock prices was a rise of about 3 per cent in industrial stocks, a fractional gain in rail issues, and a slight decline in public utility shares. Bank stocks receded about 12 per cent further in September following a slight decline in the second half of August from the temporary peak reached around mid-August.

Domestic corporation bonds on the whole showed an advancing tendency during September. The extent of the gains for the month was inverse to the grade of the bonds, the medium grade bonds showing an average advance of about $\frac{3}{4}$ to 1 point while the highest grade issues showed virtually no net change. The steadiness in high grade issues, however, followed a decline of about $2\frac{1}{2}$ points in July and August. In the foreign bond market, a representative price average dropped about 1 point during the third week of September, reflecting largely declines in Italian issues, but prices subsequently firmed somewhat.

New Financing

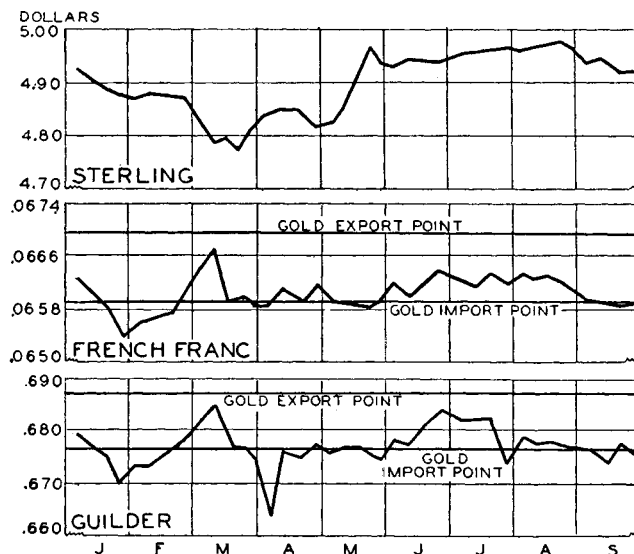
The rate of offering of new domestic security issues quickened considerably in September following some decline in August, but the total did not equal the large volume put out in July. Both corporate and State and municipal issues appeared in larger volume than in August. According to weekly data, corporate flotations amounted to about \$250,000,000 in September, most of which continued to be refunding issues. In this category, the largest issues were \$57,500,000 by the Southern California Edison Company, \$50,000,000 by the Socony-Vacuum Oil Company, and \$49,000,000 by the Detroit

Edison Company. There were several other issues of from \$16,000,000 to \$24,000,000. Coupon rates on the large issues of long term bonds ranged from 3½ to 4½ per cent. State and municipal financing exceeded \$100,000,000, including principally \$30,000,000 State of New York emergency unemployment relief 2¼ per cent serial bonds and \$20,000,000 State of Tennessee highway 3.90 per cent bonds. There was also a \$15,000,000 issue of Federal Intermediate Credit Bank debentures, which in part replaced maturities. Public offerings of securities during September included a new type of investment medium. This was the offering of a total of \$1,250,000 of real estate mortgages insured by the Federal Housing Administration, yielding from 4½ to 5 per cent.

Foreign Exchanges

In the second half of August and in September the dollar for the first time since January advanced simultaneously against both the pound and the European gold exchanges. During previous periods of weakness in Continental European gold currencies recently, these exchanges declined in terms of dollars to a point where gold shipments from Europe to the United States became profitable, but the pound, being free to fluctuate subject only to the operations of the British Exchange Equalization Account, advanced on these occasions more sharply than did the dollar. This tendency was particularly evident in March, April, and May of this year, as the accompanying diagram shows. The pound advanced from about \$4.75 in the middle of March to \$4.95 at the end of May, during a period when either the French franc, the guilder, or both were in the vicinity of their respective gold import points. The strength of sterling at that time contrasts sharply, however, with the tendency shown during the latter half of August and September. After reaching a high of \$4.98¾ on August 14, the day on which, according to an announcement by the Secretary of the Treasury, the United States purchased over 25,000,000 ounces of silver abroad, sterling showed a downward movement in the second half of the month, and the recession proceeded further during September, the rate touching a low of \$4.91½ on September 20. Uncertainty regarding the political situation in Europe was reported to have contributed to the decline in the sterling-dollar rate, particularly after the middle of September.

Among the gold bloc currencies, both the French franc and the guilder were quoted during most of September at or below their gold import points to the United States, and further gold shipments to New York from Paris and Amsterdam were undertaken. Pronounced weakness in the guilder became evident immediately prior to the reconvening of the Netherlands Parliament on September 17 to consider the Government's proposed fiscal measures. The drop in the franc, however, seemed to be largely unrelated to developments within France, and was due rather to external technical influences growing out of the special position occupied by the franc as the principal exchange through which official operations in support of other major foreign currencies are undertaken.



Movements of Foreign Exchange Rates at New York (Latest quotations are for September 27)

The sterling area currencies moved about in keeping with the pound, while a number of European currencies, including the Italian lira, the Swiss franc, and the official rate for the reichsmark, were approximately stable in terms of French exchange. The Brazilian free milreis showed an upward tendency during September for the first time since the extension of the free market in February 1935, and the Argentine peso advanced sharply in the free market during the second half of the month.

Closing Cable Rates at New York

| Exchange on | Sept. 29, 1934 | Aug. 31, 1935 | Sept. 30, 1935 |
|-------------|----------------|---------------|----------------|
| Belgium | \$.2357 | \$.1682 | \$.1690 |
| Denmark | .2217 | .2217 | .2193 |
| England | 4.9613 | 4.9625 | 4.9100 |
| France | .06646 | .06603 | .06590 |
| Germany | .4056 | .4020 | .4024 |
| Holland | .6834 | .6767 | .6769 |
| Italy | .0865 | .0816 | .0815 |
| Norway | .2495 | .2494 | .2467 |
| Spain | .1378 | .1368 | .1366 |
| Sweden | .2560 | .2558 | .2530 |
| Switzerland | .3290 | .3261 | .3254 |
| Canada | 1.0275 | .9950 | .9888 |
| Argentina | .3308 | .3313 | .3273 |
| Brazil | .0825 | .0863 | .0863 |
| Uruguay | .8000 | .8075 | .8050 |
| Japan | .2910 | .2934 | .2882 |
| India | .3744 | .3755 | .3715 |
| Shanghai | .3661 | .3688 | .3831 |

Gold Movement

The renewed inflow of gold from Europe which developed around the middle of September reached substantial proportions in the succeeding two weeks, and for the month as a whole, gold imports into the United States totaled \$150,000,000. Of that amount \$40,000,000 was received from France, \$37,000,000 from England, \$37,000,000 from Holland, \$20,000,000 from India, \$15,000,000 from Canada, and \$1,000,000 from China.

In addition to these imports, \$1,100,000 of gold was released from earmark for foreign account at the New

York Reserve Bank, and there were further deposits of newly mined domestic gold and scrap gold at the mints and assay offices averaging about \$2,500,000 and \$700,000 per week, respectively. As a result primarily of the gold import movement from England and the Continent, a total of approximately \$165,000,000 was added to the monetary gold stock of this country during September.

Central Bank Rate Changes

On September 9 the Bank of Italy raised its discount rate from 4½ to 5 per cent, following an increase from 3½ to 4½ per cent on August 12. The Netherlands Bank rate was raised from 5 to 6 per cent on September 17, following a renewed outflow of gold.

Production

The rate of steel mill operations was little changed from August to September although requirements of the automobile industry for steel declined in connection with the stoppage of assembly lines and preparations for new models. The output of bituminous coal increased during the first two weeks of September, in renewed anticipation of labor difficulties, but the materialization of the strike on September 23 affected the rate of production until October 1 and consequently reduced total production for the month as a whole. Electric power production remained approximately unchanged in September, while cotton consumption, indicative of activity at cotton textile mills, increased seasonally.

The level of industrial production on the whole was well maintained during August and the Board's seasonally adjusted index of industrial production stood at 86 per cent of the 1923-25 average, the same as in the two preceding months. The sub-index of manufactures rose one point to 87, while that of minerals declined three points to 81 as a result of a sharp shrinkage in anthracite coal output. The rate of steel output increased 24 per cent from July to August, and activity was also greater in meat packing and sugar refining plants. Cotton mills expanded operations in accord with the seasonal experience of past years, and production of woolen textiles increased more than seasonally. However, there was a substantial decline in the rate of automobile

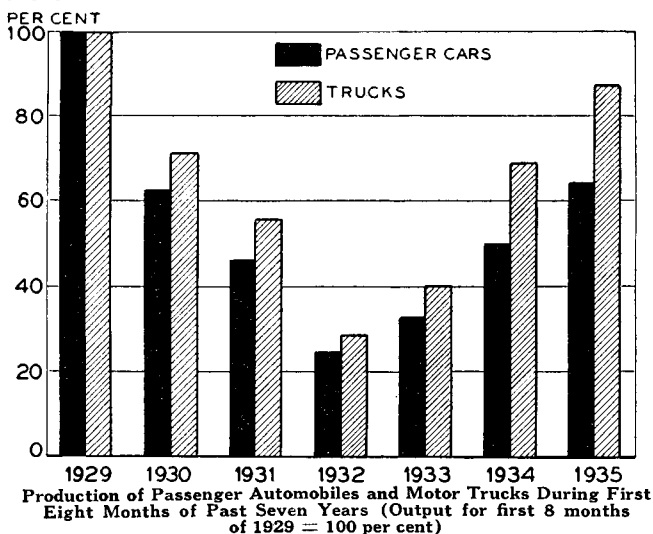
assemblies, and shoe production increased by less than the usual amount. Machine tool orders, which had risen steadily from February to July, were little changed from the previous month.

As the automobile season for 1935 models draws to a close, figures for the year to date make favorable comparisons with the preceding five years. As the accompanying diagram shows, production of passenger cars in the first eight months of 1932 had dropped to 25 per cent of the total for the corresponding period in 1929. In the two following years production doubled and the further gain this year brought output to 64 per cent of the 1929 level, surpassing the figures for all other years since 1929. Truck production shows a consistently more favorable comparison with its 1929 total than passenger car output, dropping to 29 per cent in 1932, and recovering this year to 87 per cent of the 1929 level.

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

| | 1934 | 1935 | | |
|--------------------------------------|------|------|------|------|
| | Aug. | June | July | Aug. |
| <i>Metals</i> | | | | |
| Pig iron..... | 32 | 45 | 45 | 53 |
| Steel ingots..... | 33 | 53 | 56 | 69 |
| Lead..... | 38 | 48 | 50 | 50 |
| Zinc..... | 50 | 67 | 68 | 67 |
| <i>Automobiles</i> | | | | |
| Passenger cars..... | 40 | 58 | 59 | 39p |
| Motor trucks..... | 83 | 102 | 101 | 92p |
| <i>Fuels</i> | | | | |
| Bituminous coal..... | 66 | 85 | 60 | 63p |
| Anthracite coal..... | 58 | 112 | 67 | 43p |
| Petroleum, crude..... | 68 | 69 | 69 | 68p |
| Petroleum products..... | 67 | 67 | 69 | 69 |
| Electric power..... | 72 | 74 | 75p | 76p |
| <i>Textiles and Leather Products</i> | | | | |
| Cotton consumption..... | 72 | 71 | 72 | 72 |
| Wool mill activity..... | 73 | 116 | 121 | 127 |
| Silk mill activity..... | 65 | 55 | 60 | 70p |
| Rayon deliveries*..... | 87 | 85 | 105 | 116p |
| Shoes..... | 96 | 97 | 105p | 96p |
| <i>Foods and Tobacco Products</i> | | | | |
| Meat packing..... | 132 | 70 | 72 | 81 |
| Wheat flour r..... | 80r | 85r | 79r | 68r |
| Refined sugar deliveries..... | 77 | 68 | 62 | 108p |
| Tobacco products..... | 82 | 83 | 86 | 81 |
| <i>Miscellaneous</i> | | | | |
| Cement..... | 40 | 44 | 42 | 36 |
| Tires..... | 52 | 50 | 51 | |
| Newsprint paper..... | 73 | 73 | 69 | 70p |
| Machine tools..... | 34 | 76 | 106 | 99 |

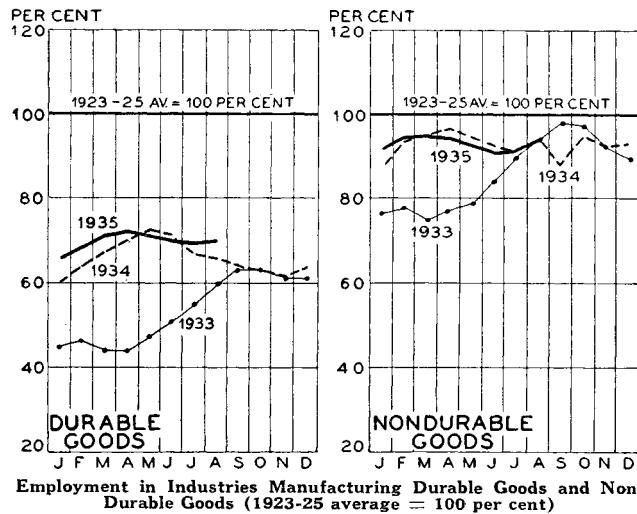
p Preliminary r Revised * For quarter ended



Employment and Payrolls

From the middle of July to the middle of August employment and payrolls in representative New York State factories increased by considerably more than the usual seasonal proportions. The seasonally adjusted index of employment showed an increase of approximately 1½ per cent over the preceding month, reaching the highest point since May 1931, and the adjusted index of payroll disbursements advanced more than 3½ per cent to the highest level since September 1931. Much of the gain in employment and payrolls was traceable to unusually early fall activity in the clothing industry, although most of the other industries reported some net increase in the number of workers and in the amount of payrolls.

For the entire country likewise, factory employment and payrolls showed greater gains between the middle of July and the middle of August than has been usual in



recent years. Resumption of more regular plant operation after shutdowns for inventory and repairs during July, together with more than the usual seasonal expansion in a number of key industries such as the textile, iron and steel, machinery, and lumber groups largely accounted for the gains. Employment in the automobile industry, however, was reduced, owing to curtailed production prior to the introduction of new models.

Gains in employment occurred in both the durable and nondurable goods groups of manufacturing industries during August. The increase over the preceding month amounted to about $1\frac{1}{2}$ per cent in the durable goods group and to nearly 4 per cent in the nondurable goods group. As the accompanying diagram indicates, however, the durable goods group registered an increase of 6 per cent compared with a year ago, whereas the number of workers employed in the nondurable goods group during the past two months was practically the same as a year earlier.

In contrast to the improvement in factory employment during the month ended August 15, nonmanufacturing industries showed a small net loss in the number of workers. Decreased employment in anthracite coal mining and in retail trade was offset only in part by gains reported in bituminous coal mining and in private building construction.

Indexes of Business Activity

During the first half of September, the distribution of goods appears to have increased slightly. About the usual gain occurred in the railroad movement of merchandise and miscellaneous freight so that this bank's seasonally adjusted index was maintained at the level prevailing since May, but an increase in all other classifications of freight shipments, especially in the amount of coal carried, raised bulk freight car loadings by considerably more than the usual proportions for this time of year. Department store sales in the Metropolitan New York area also appear to have shown a more than seasonal upturn from the summer level.

In August, changes of approximately the usual seasonal magnitude predominated in data on the distribution of goods and general business activity. The railroad movement of merchandise and miscellaneous freight,

chain grocery sales, life insurance sales, and the volume of check transactions outside New York City were among the important indicators that showed little change other than seasonal from July to August. Advances of more than the average proportions occurred, however, in bulk freight shipments and department store sales, and the seasonally adjusted index of advertising also rose. Registrations of new passenger automobiles, on the other hand, receded during August reflecting the virtual completion of output of 1935 models and preparations for early introduction of 1936 models, but were at the highest level for any August since 1929.

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

| | 1934 | 1935 | | |
|--|-----------------|------|-----------------|------------------|
| | Aug. | June | July | Aug. |
| <i>Primary Distribution</i> | | | | |
| Car loadings, merchandise and misc. | 56 | 58 | 58 | 58 |
| Car loadings, other | 58 | 63 | 52 | 57 |
| Exports | 51 | 53 | 52 | 48 _p |
| Imports | 51 | 76 | 80 | 67 _p |
| Wholesale trade | 94 | 82 | 93 | 93 |
| <i>Distribution to Consumer</i> | | | | |
| Department store sales, U. S. | 78 | 76 | 76 | 79 |
| Department store sales, 2nd Dist. | 71 _r | 70 | 66 _r | 70 |
| Chain grocery sales | 66 | 61 | 59 | 58 |
| Other chain store sales | 79 | 85 | 78 | 82 |
| Mail order house sales | 67 | 80 | 71 | 71 |
| Advertising | 60 | 58 | 58 | 60 |
| New passenger car registrations | 49 | 62 | 62 | 58 _p |
| Gasoline consumption | 72 | 70 | 70 | |
| <i>General Business Activity</i> | | | | |
| Bank debits, outside New York City | 61 | 66 | 66 | 66 _p |
| Bank debits, New York City | 43 | 46 | 50 | 46 |
| Velocity of demand deposits, outside New York City | 68 | 66 | 68 | 67 |
| Velocity of demand deposits, New York City | 48 | 45 | 49 | 45 |
| New life insurance sales | 62 | 55 | 56 | 55 |
| Factory employment, United States | 80 | 81 | 82 | 83 _p |
| Business failures | 44 | 44 | 42 | 42 |
| Building contracts | 21 | 25 | 26 | 29 _p |
| New corporations formed in N. Y. State | 63 | 59 | 60 | 59 |
| General price level* | 138 | 144 | 145 | 145 _p |
| Composite index of wages* | 182 | 188 | 186 | 186 _p |
| Cost of living* | 138 | 139 | 140 | 141 |

_p Preliminary _r Revised * 1913 average=100

Building

The volume of building and engineering contracts awarded in the Second Federal Reserve District was slightly larger in August than in July, due to an increase in public works projects, in this instance water front developments especially. Residential contracts showed some decline from the relatively high level of the preceding four months, and nonresidential building also decreased. Contracts in all of the major groups were larger than a year ago, however, and the total showed an increase of 47 per cent. For the first 8 months of this year contracts for all types of building and engineering work in this district totaled \$205,000,000, a net increase of \$16,000,000 over the same period a year ago, which is more than accounted for by the recovery in residential building alone.

Total contracts in the 37 States covered by the F. W. Dodge Corporation report showed an increase from July to August, due to heavier contracts for public works, including water front developments, highways, and bridges, and after adjustment of the data for usual seasonal changes this bank's index of building contracts

advanced 3 points to 29 per cent of the computed long term trend. Residential contracts declined considerably more than seasonally, however, while nonresidential building was little changed. In comparison with last year, increases were shown by each of the major construction groups. Reflecting the expansion in public works projects and the decline in residential work, the total of contracts awarded for construction under public ownership rose above the total undertaken privately, following four months in which private construction had exceeded public construction.

Data for the first half of September indicate increases of a seasonal nature in residential and public works and utility projects, but an unseasonal recession in nonresidential contracts.

Commodity Prices

Commodity prices continued to advance during most of September, and the Bureau of Labor Statistics weekly index of all commodities for the week ended September 21 was at the highest point since November 1930. As in previous months, this increase reflected largely gains in agricultural commodities; the index of farm prices increased about 3 per cent from the end of August, and the wholesale food group, although showing only a slight net advance, reached the highest level since October 1930. In the nonagricultural groups, small gains in hides and leather, building materials, and textile products were largely offset by a recession in fuel and lighting materials. Other classifications, composed largely of finished goods, showed little change.

Raw materials, particularly those traded on organized exchanges, showed the largest price rise during September. Reports of increased tension in the European political situation and of drought in the Argentine wheat area were followed by substantial advances in American wheat prices. As is shown in the first section of the accompanying diagram, the Number 1 grade of Northern wheat at Minneapolis rose during the course of the month to the highest point since 1929, and despite a subsequent recession, the price was up 8 cents for the month as a whole; future quotations for wheat showed similar advances. Spot cotton prices increased some-

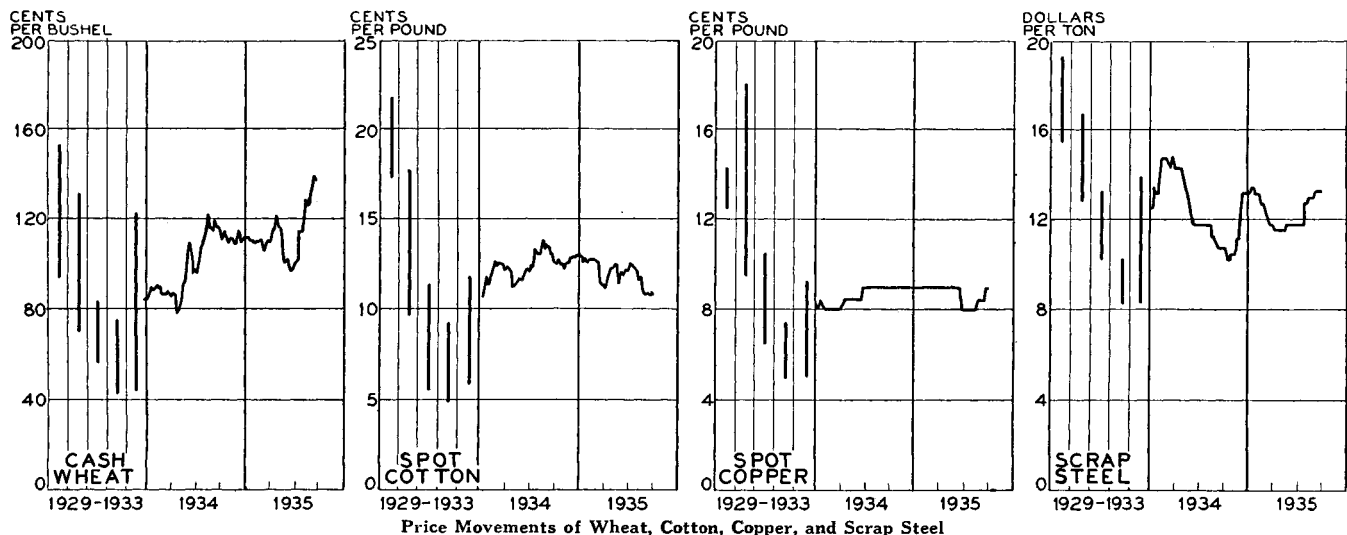
what in the first part of September, but lost most of this gain in the last ten days of the month, and as the second part of the diagram shows the price is currently about 3 cents below the high reached in August 1934. With respect to the other two commodities shown in the diagram, the price of domestic copper advanced 1/2 cent on September 16 to 9 cents a pound, following an increase of similar amount August 19, and scrap steel at Pittsburgh rose slightly further to about the level prevailing at the beginning of the year.

Among other actively traded commodities, the price of raw silk rose about 18 per cent during September to the highest level since July 1933, and spot corn prices increased 6 1/2 cents a bushel. The price of lead during the course of the month reached the highest level since March 1931, and zinc established a new high since November 1933. Moderate net gains also occurred in the prices of raw sugar, wool, and hides.

Foreign Trade

This country's foreign trade declined slightly during August, both exports and imports of merchandise receding from the July levels contrary to the usual seasonal tendency. Exports, valued at \$172,000,000, were approximately the same as a year ago, while imports of \$170,000,000 were 42 per cent larger. Thus, the export balance was again greatly reduced from a year ago; during the first eight months of this year exports have exceeded imports by only 2 per cent, compared with 23 per cent for the corresponding period of 1934.

The leading commodities entering into our foreign trade continued during August to show the same tendencies as in other recent months. A number of exports, especially agricultural products, showed marked declines from a year ago which offset increases in certain other items such as crude and refined petroleum products, copper, motor trucks and busses, and fertilizers. Substantial increases over August 1934 occurred among most of the major imports. Sugar receipts, as in July, were nearly six times the temporarily small volume of a year ago, and wool imports increased almost three-fold. There were notable gains in purchases abroad of a number of other important crude and manufactured products, but



reductions were reported in imports of copper and fertilizers.

Available data on the foreign trade of the various nations for the first half of 1935, when compared with the corresponding period of 1934, show considerable disparity, as the accompanying table indicates. In general, the European gold bloc countries—France, Netherlands, and Switzerland—and also Italy and Germany, were among those showing declines compared with last year in both exports and imports. The United States, the Union of South Africa, and Russia showed declines of varying amounts in exports but increases in imports. South American and Far Eastern countries, in general, showed the largest increases in foreign trade compared with last year. In several cases increased sales of food products and other raw materials to the United States were an important factor in the increased export trade of other countries. On the other hand, the reduction in exports of American cotton was a factor in the smaller imports shown by some of the European countries.

Percentage Change for First Six Months of 1935 from Corresponding Period of 1934†

| | Exports | Imports |
|-----------------------|---------|---------|
| British Malaya** | +28 | +21 |
| Japan | +17 | +16 |
| Argentina* | +15 | +12 |
| Brazil* | +14 | +56 |
| United Kingdom | +9 | -1 |
| Australia | +4 | +18 |
| Canada | 0 | +5 |
| United States | -1 | +15 |
| Switzerland | -1 | -13 |
| Union of South Africa | -2 | +18 |
| Germany | -6 | -8 |
| Netherlands | -6 | -15 |
| Italy | -9 | -7 |
| France | -10 | -16 |
| Russia | -18 | +1 |

* First five months. ** First four months. †Based on valuations in the currencies of the respective countries.

Department Store Trade

During the first half of September, total sales of the reporting department stores in the Metropolitan area of New York were 10.3 per cent ahead of the corresponding period a year ago, and more than the usual seasonal expansion appears to have occurred from August to September. Sales in New York and Brooklyn increased 11.3 per cent over a year ago, and stores in Northern New Jersey reported an increase of 5.4 per cent, following a decline in the previous month.

For the month of August, total sales of the reporting department stores in this district were 0.7 per cent below last year, a less favorable year to year comparison than in the previous two months, but sales compared favorably with July, seasonal factors considered. The Syracuse department stores reported the largest increase in sales over a year previous since March 1934, the Hudson River Valley District stores the largest rise since June 1934, and the Bridgeport department stores the largest advance in six months. On the other hand, stores in Buffalo, Northern New York State, and Southern New York State reported smaller increases in sales than in the previous month, and the New York City, Rochester, Capital District, and Westchester and Stamford department stores showed small declines in August

sales compared with moderate advances in July. Northern New Jersey stores reported the largest decline in sales in more than two years. August sales of the leading apparel stores in this district were substantially ahead of last year, although the advance was less than in July.

| Locality | Percentage change August 1935 compared with August 1934 | | Per cent of accounts outstanding July 31 collected in August | |
|------------------------------|---|----------------------------|--|-------|
| | Net sales | Stock on hand end of month | 1934 | 1935 |
| New York | -0.3 | -2.5 | 41.4 | 42.6 |
| Buffalo | +5.8 | -4.4 | 43.2 | 45.6 |
| Rochester | -1.6 | -0.7 | 40.8 | 42.0 |
| Syracuse | +10.8 | -8.2 | 29.7 | 33.4 |
| Northern New Jersey | -8.4 | -0.4 | 35.4 | 34.8 |
| Bridgeport | +8.2 | +2.6 | 35.8 | 39.3 |
| Elsewhere | +2.4 | -10.1 | 23.8 | 27.5 |
| Northern New York State | +2.5 | ..... | ..... | ..... |
| Southern New York State | +5.3 | ..... | ..... | ..... |
| Hudson River Valley District | +4.6 | ..... | ..... | ..... |
| Capital District | -0.9 | ..... | ..... | ..... |
| Westchester and Stamford | -2.6 | ..... | ..... | ..... |
| All department stores | -0.7 | -2.7 | 38.1 | 39.5 |
| Apparel stores | +9.6 | +4.6 | 34.0 | 34.6 |

Wholesale Trade

During August, total sales of the reporting wholesale firms in this district averaged about 5 per cent higher than last year, a smaller increase than was reported for July, but a larger increase than in the preceding two months. Men's clothing and diamond concerns showed large gains in sales over a year ago, the most substantial in several months. Sales of silk goods, reported on a yardage basis by the National Federation of Textiles, also showed an increase which made the most favorable comparison with a year ago since December. The drug, paper, and jewelry firms registered moderate increases which, however, were smaller than in July, and hardware sales increased only slightly from last year. On the other hand, the decrease recorded in sales of cotton goods was the smallest in 8 months. Grocery and shoe concerns reported sales below a year ago, following substantial gains in the preceding month, and the stationery firms registered an unusually large decline.

| Commodity | Percentage change August 1935 compared with August 1934 | | Per cent of accounts outstanding July 31 collected in August | |
|------------------|---|--------------------|--|------|
| | Net sales | Stock end of month | 1934 | 1935 |
| Groceries | -1.6 | +5.4 | 98.4 | 94.9 |
| Men's clothing | +22.8 | ..... | 47.0 | 55.1 |
| Cotton goods | -1.5 | ..... | 40.5 | 42.7 |
| Silk goods | +14.3* | +3.6* | 58.0 | 62.4 |
| Shoes | -15.5 | ..... | 39.3 | 33.9 |
| Drugs | +7.6 | -9.7 | 24.2 | 25.3 |
| Hardware | +1.0 | +3.7 | 46.2 | 46.3 |
| Stationery | -10.9 | ..... | 50.0 | 54.1 |
| Paper | +3.6 | ..... | 45.4 | 43.9 |
| Diamonds | +49.0 | +20.2 | 25.3 | 22.6 |
| Jewelry | +5.2 | -1.4 | | |
| Weighted average | +5.1 | ..... | 58.4 | 59.2 |

* 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, OCTOBER 1, 1935

Business Conditions in the United States

(Summarized by the Board of Governors of the Federal Reserve System)

TOTAL volume of industrial production increased in August by about the usual seasonal amount. Steel output increased more than seasonally, while the output of automobiles and anthracite declined sharply. Factory employment and payrolls increased. Wholesale prices of farm products and metals advanced during August and the first two weeks of September, and prices of wheat and metals increased further in the third week of the month.

PRODUCTION AND EMPLOYMENT

Industrial production increased seasonally in August and the Board's index, which is adjusted to allow for usual seasonal variations, remained unchanged at 86 per cent of the 1923-1925 average. Activity at steel mills showed a considerable increase from July to August and in the first three weeks of September was at a level higher than in any other month since February. Automobile assemblies declined by about 30 per cent in August, and showed a further sharp reduction in the early part of September, reflecting in part preparations for early introduction of new models. At lumber mills output continued to increase in August. Cotton consumption by domestic mills increased slightly from recent relatively low levels and activity at woolen mills was maintained at a high rate. At mines, output of anthracite decreased sharply in August, while output of bituminous coal showed an increase. Factory employment and payrolls increased between the middle of July and the middle of August by more than the usual seasonal amount. Marked increases in employment were reported for the steel, machinery, lumber, silk, and clothing industries, while at automobile factories employment declined somewhat. The number of wage earners engaged in the production of durable manufactures in August was 6 per cent larger than a year earlier, while the volume of employment in other manufacturing industries as a group showed little change. Total factory employment was 3 per cent larger than in August 1934.

Daily average value of construction contracts, as reported by the F. W. Dodge Corporation, showed little change in August and the first half of September. Contracts for residential building, which earlier in the year had increased considerably, showed a decrease for this period, while the volume of public projects increased.

Department of Agriculture estimates based on September 1 conditions indicate a cotton crop of 11,489,000 bales, as compared with the unusually small crop of 9,636,000 bales last year. The indicated crops of corn, wheat, and other grains are considerably larger than last year, when drought conditions prevailed, and the condition of pastures is above the ten year average.

DISTRIBUTION

Freight car loadings increased considerably in August and the first half of September, partly as a consequence of seasonal factors. Department store sales increased slightly less than seasonally from July to August.

COMMODITY PRICES

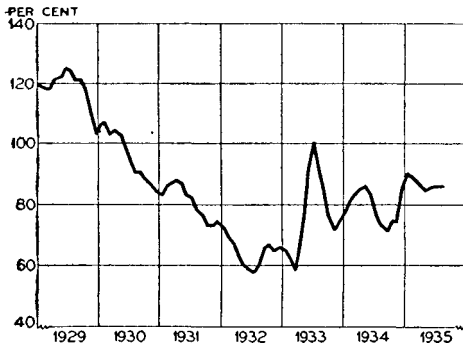
The general level of wholesale commodity prices, as measured by the index of the Bureau of Labor Statistics, advanced from 79.6 per cent of the 1926 average at the beginning of August to 80.8 per cent in the second week of September and prices of many leading commodities, including wheat, silk, copper, lead, and zinc advanced further in the third week of the month. Cotton prices declined considerably in August and showed relatively little change in the first three weeks of September.

BANK CREDIT

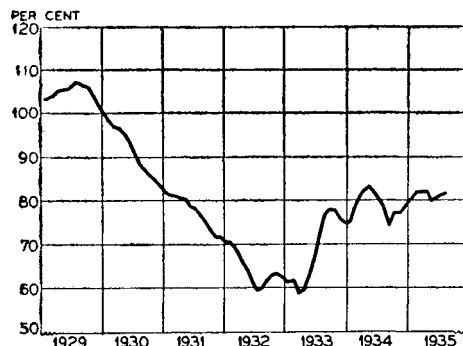
Excess reserves of member banks declined in the five week period ended September 18, reflecting a temporary increase in the Treasury's total holdings of cash and deposits at Federal Reserve Banks and a seasonal increase of money in circulation, which was partly offset by an inflow of gold from abroad.

Total loans and investments of reporting banks in leading cities increased by \$610,000,000 during the five weeks ended September 18. Loans increased by \$100,000,000, holdings of United States Government direct obligations by \$390,000,000, holdings of United States guaranteed securities by \$70,000,000, and holdings of other securities by \$50,000,000. Adjusted demand deposits of these banks—that is, demand deposits other than Government and bank deposits, adjusted for collection items—increased by \$140,000,000, United States Government deposits by \$160,000,000, and balances due to banks by \$270,000,000.

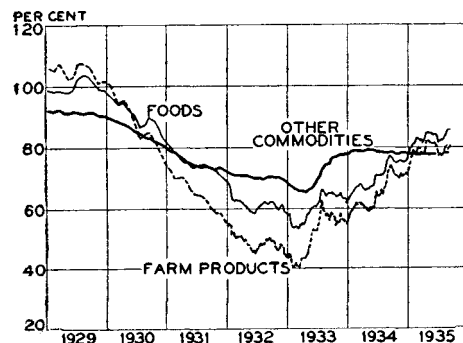
Yields on Government securities rose somewhat further during this period, while other short term open market money rates remained at previous low levels.



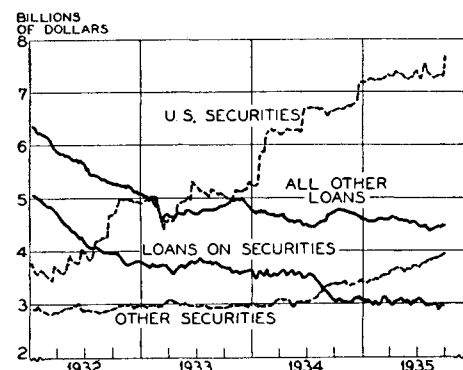
Index Number of Production of Manufactures and Minerals Combined, Adjusted for Seasonal Variation (1923-25 average=100 per cent)



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



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



Wednesday Figures for Reporting Member Banks (Latest figures are for September 18)