

MONTHLY REVIEW

of Credit and Business Conditions

Second Federal Reserve District

Federal Reserve Agent

Federal Reserve Bank, New York

November 1, 1935

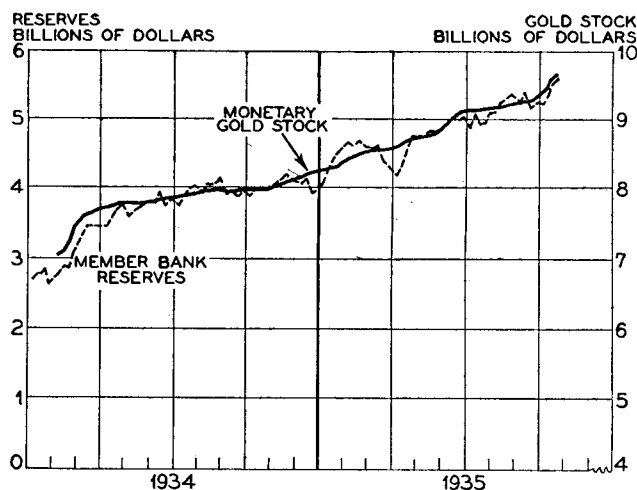
Money Market in October

Total reserves of member banks have risen more than \$400,000,000 further during the past month to a new high level at about \$5,650,000,000. This compares with about \$4,000,000,000 a year ago and about \$2,600,000,000 at the end of October 1933. Two years ago the Reserve Banks had nearly completed their purchases of Government securities in the open market, and excess reserves of member banks were in the neighborhood of \$800,000,000. Since that time reserve requirements of member banks have risen, accompanying the rapid expansion of deposits, by an amount sufficient to absorb all of the excess reserves which member banks then held. Despite this large increase in reserve requirements, however, member banks now have approximately \$3,000,000,000 of excess reserves, which represent entirely additional funds acquired during the past two years.

The principal source of this large volume of additional reserves is indicated in the accompanying diagram, which compares the growth in member bank reserves with the growth of the monetary gold stock of the United States since the devaluation of the dollar at the end of January 1934. As this diagram indicates, the growth of member bank reserves and of the gold stock have been almost identical, although reserves have shown comparatively wide fluctuations from time to time which may be attributed chiefly to Government transactions and changes in the volume of currency in circulation.

A part of the increase in member bank reserves in October was due to Government disbursements of funds accumulated in the Treasury and in the Reserve Banks during September, but the principal factor, as in the preceding two years, was the inflow of gold to this country. Gold imports during October amounted to approximately \$305,000,000, which, with receipts of nearly \$150,000,000 in September and some further amounts due to arrive early in November, makes a total for the current movement of about \$480,000,000. For the year to date, the increase in the monetary gold stock of the United States has amounted to approximately \$1,460,000,000, an even larger increase than occurred in 1934, and much the largest for any single year in the history of the country, whether measured in value or weight.

The additional funds received by member banks during October were offset to a small extent by seasonal currency requirements, which in the two weeks ended October 9 caused an increase of \$72,000,000 in the amount of currency outstanding, and there was also some further increase in reserve requirements during the month. Since the seasonal low point of July 24, the amount of currency outstanding has increased by about \$200,000,000, an amount somewhat larger than the average seasonal increase in previous years, and during the past year the amount of currency nominally in circulation has shown an increase of approximately \$250,000,000. It appears likely, however, that not all of the increase in the amount of currency outstanding represents an actual increase in the amount of currency in active circulation. Banks having large excess reserves have not had the same incentive to deposit unneeded currency promptly in the Reserve Banks for credit to their reserve balances, and in some cases large depositors such as States and municipalities are reported to have chosen to hold part of their funds in cash, rather than in deposits, in view of the fact that they no longer obtain interest on demand deposits and are unable to arrange for the acceptance of funds as time deposits. Inactive currency holdings of that kind are probably responsible for the renewed increase within the past year in the amount of bills of \$50 to \$10,000 denominations outstanding.



Growth of Member Bank Reserve Balances Compared with Increase in the Monetary Gold Stock (Latest figures are for October 23)

MEMBER BANK CREDIT

Reports from member banks in New York City and other principal cities throughout the country still give no evidence of the development of any large demand for short term bank credit. Loans other than security loans, in fact, showed a small reduction in the latter part of October, following an increase of \$231,000,000 between the end of July and the middle of October. The reduction, however, occurred in New York City, and apparently was due largely to the use of some of the proceeds of new security issues to repay bank loans. In cities other than New York there was a further gradual increase in loans other than security loans during October.

Loans on securities by the reporting member banks also showed some reduction in October, which carried the total volume of such loans to a level only slightly above the previous low point for recent years, which was reached near the end of August. Most of the reduction was in loans to security brokers and dealers in New York City, which may have been related, at least in part, to the completion of Government refinancing operations started in September; there was little change in loans on securities to other customers. On October 23 total loans of the reporting banks to brokers and dealers in New York City were approximately \$100,000,000 above the low point of the year, which was reached early in February, while loans on securities to other customers were \$180,000,000 below the early February level.

Government security holdings of the reporting banks showed a net reduction of \$100,000,000 during the four weeks ended October 23, but this reduction followed an increase of more than \$300,000,000 in the preceding month, and was probably due in part to the retirement on October 15 of the last part of the Fourth Liberty Loan bonds. Furthermore, it is not unusual after a Government issue for a part of the amount originally taken by banks to be gradually distributed to others. Holdings of Government guaranteed securities showed a further increase of \$31,000,000 during the four week period, while investments in other securities, after irregular fluctuations, showed a small net reduction.

The expansion in deposits of the reporting banks continued during the past month. Net demand deposits, exclusive of Government deposits, showed an increase of \$223,000,000 to a new high level in the four weeks ended October 23, and time deposits showed an increase of \$90,000,000. The data currently reported on net demand deposits are not entirely comparable with those published prior to the enactment of the Banking Act of 1935, due to required changes in the method of computing net demand deposits, but figures for "adjusted demand deposits" indicate that, after deduction of inter-bank deposits and Government deposits, demand deposits are continuing to show an increase of more than 20 per cent over a year ago.

MONEY RATES

Effective October 25, the New York Clearing House Association increased from $\frac{1}{4}$ to $\frac{1}{2}$ per cent the charge to be made by its members for placing and servicing loans on securities for other banks. This action was fol-

lowed on October 29 and 30 by an advance in the rate charged by New York banks on call loans to security brokers and dealers from $\frac{1}{4}$ per cent to $\frac{3}{4}$ per cent. The rates quoted on Stock Exchange time money were also advanced, 90 day loans being quoted on October 30 at 1 per cent. Yields on Government securities declined somewhat during October, and other money rates remained unchanged.

Money Rates at New York

	Oct. 31, 1934	Sept. 30, 1935	Oct. 30, 1935
Stock Exchange call loans.....	1	$\frac{1}{4}$	$\frac{3}{4}$
Stock Exchange 90 day loans.....	* $\frac{3}{4}$ -1	* $\frac{1}{2}$	*1
Prime commercial paper—4 to 6 months	$\frac{3}{4}$ -1	$\frac{1}{2}$	$\frac{3}{4}$
Bills—90 day unindorsed.....	$\frac{1}{8}$	$\frac{1}{8}$	$\frac{1}{8}$
Customers' rates on commercial loans..	2.13	1.67	1.67
(Average rate of leading banks at middle of month)			
Treasury securities:			
Maturing June (yield).....	No yield	0.02	No yield
Maturing February 1937 (yield)....	....	0.21	0.13
Average yield on Treasury notes			
(1-5 years).....	1.46	0.96	0.80
Average yield on Treasury bonds (more than 5 years to earliest call date)....	2.96	2.67	2.59
Average rate on latest Treasury bill sales			
182 day issue.....	0.19	....	....
273 day issue.....	....	0.23	0.17
Federal Reserve Bank of New York 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

GOVERNMENT SECURITIES

Further recovery in the prices of United States Government securities occurred during the first three weeks of October, and quotations reached the highest points since late August and early September. The average yield on Treasury bonds declined to 2.56 per cent, which compares with the temporary high of 2.71 per cent reached on September 21 and a low point of about 2.40 per cent early in the summer. Likewise the average yield on Treasury notes of 1 to 5 year maturity receded to 0.77 per cent, as against the September high of 1.03 per cent and the June-July low of about 0.50 per cent. Thus, it appears that approximately one-half of the late summer price decline was recovered between September 21 and October 21. In the closing week of October, however, quotations on Government securities fluctuated irregularly with a slight downward tendency of prices, so that average yields rose about 0.03 per cent.

Treasury financing operations during October included the exchange of Fourth Liberty Loan bonds for new Treasury bonds, which continued through October 11, and the redemption of unexchanged Fourth Liberty Loan bonds beginning on October 15. About \$150,000,000 out of approximately \$245,000,000 of Fourth Liberty Loan bonds outstanding were presented for payment by October 29. There was also an increased volume of Treasury bill financing in October, new issues exceeding maturities by \$250,000,000. In replacement of five \$50,000,000 weekly maturities of 133 day bills, the Treasury put out five \$50,000,000 issues of 273 day bills, and five \$50,000,000 issues of bills ranging from 166 to 138 days, all of which will mature on March 16, 1936, the quarterly tax date. Yields on new issues, as on outstanding issues, moved downward, the October 30 issue of 273 day bills being sold at an average rate of 0.17 per cent, as compared with 0.25 per cent on the issue dated October 2.

BILLS AND COMMERCIAL PAPER

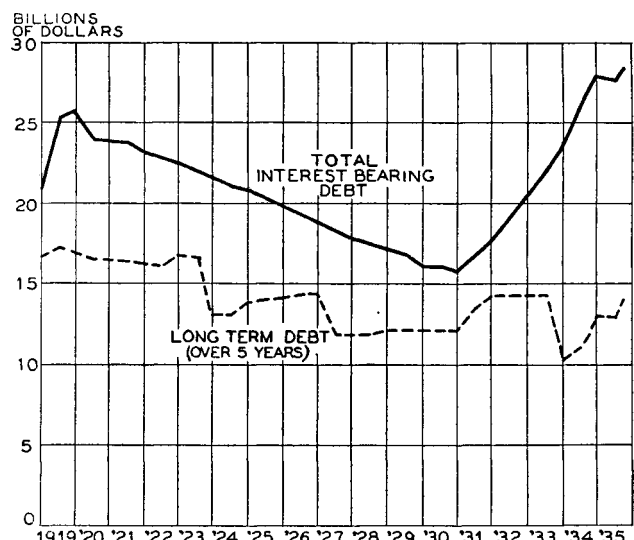
Nothing occurred during October to alter the very quiet conditions that have prevailed for some time in the bill market. Dealers' portfolios remained small and rates were steady at 1/8 per cent for practically all of the bills sold by the dealers. The total of bills outstanding rose \$6,000,000 further during September to \$327,800,000, reflecting primarily an additional increase of \$15,000,000 in domestic warehouse credits, partially offset by continued declines in export bills and in bills based on goods stored in or shipped between foreign countries. Compared with a year ago, the volume of bills outstanding again showed a large reduction. Accepting banks and bankers continued to hold more than 90 per cent of all bills outstanding.

Commercial and industrial concerns continued to borrow moderate amounts of funds through the commercial paper market during October, but the total amount of new notes drawn remained far below the volume for which bank investors inquired. The rate for prime commercial paper was steady at 3/4 per cent. At the end of September commercial paper concerns had \$183,100,000 of paper outstanding, as compared with \$176,800,000 at the end of August. Despite this increase, however, the September outstandings were still about 5 per cent below the level of a year ago.

Liberty Loan Refunding; Present Form of the National Debt

With the redemption of the remaining bonds of the Fourth Liberty Loan still outstanding, which began on October 15, the refunding of the war debt is being brought to a close. Within two years the largest of the war loans—the Fourth Liberty Loan—amounting to more than six billion dollars, and also the First Liberty Loan, amounting to nearly two billion dollars, have been retired, either through exchanges for new securities, or through redemptions in cash obtained from the sale of new securities. The accompanying table summarizes the operations by which this volume of Liberty Loan bonds has been retired.

The completion of these operations leaves no further maturities of Government bonds to be met within the next five years. The earliest callable issue now outstand-



United States Interest Bearing Debt (As of June and December of each year except 1935 for which latest figures are for October 31)

ing is the comparatively small issue of 3 3/8 per cent bonds of 1940-1943. Most of the Government bonds now outstanding mature in more than eight years, and many are not callable within the next ten years. Treasury financing for some time, therefore, will consist of raising the funds required to finance Government expenditures for recovery and relief purposes, and the refunding from time to time of recurring maturities of Treasury bills and Treasury notes.

A large part of the increase in the national debt during the past five years has been in the form of Treasury notes maturing within five years, and to a smaller extent in Treasury bills which mature within one year. As the accompanying diagram shows, the increase in the interest-bearing debt of the United States from the low point at the end of 1930 has been \$12,600,000,000, of which \$10,700,000,000 has been in the form of securities maturing within five years. The table indicates that approximately 62 per cent of the Liberty Loan bonds refunded within the past two years were exchanged for new issues of Treasury bonds, while 23 per cent were exchanged for Treasury notes, and about 15 per cent have been or will be redeemed in cash. Although these refunding operations tended to reduce somewhat the amount of long term bonds outstanding,

Liberty Loan Refunding Operations, October 1933 to October 1935 (In millions of dollars)

Call Issued On	Amount Called	Exchanged for new bonds		Exchanged for new notes		Redeemed or to be redeemed for cash	
		Amount	Per cent	Amount	Per cent	Amount	Per cent
<i>Fourth Liberty Loan</i>							
October 12, 1933.....	1,880	1,704	90.6	0	0	176	9.4
	25*	25					
April 13, 1934.....	1,250	457	36.5	596	47.7	197	15.8
October 12, 1934.....	1,870	1,560	83.4	0	0	310	16.6
April 13, 1935.....	1,243	569	45.8	429	34.5	245	19.7
Total.....	6,268	4,315	68.8	1,025	16.4	928	14.8
<i>First Liberty Loan</i>							
March 14, 1935.....	1,933	744	38.5	864	44.7	325	16.8
Grand Total.....	8,201	5,059	61.7	1,889	23.0	1,253	15.3

* Represents uncalled Fourth's exchanged for new bonds.

additional issues of bonds were sold for cash during this period, or offered in exchange for maturing short term obligations; so that the total volume of Government bonds outstanding has shown a moderate increase.

Coincident with the rise in the public debt, the holdings of direct Government obligations by member banks rose from \$4,125,000,000 in December 1930 to \$9,871,000,000 at the end of June 1935. In this case, also, the greater part of the increase was in holdings of Treasury notes maturing within five years, the increase in such holdings amounting to \$3,800,000,000. Holdings of Treasury bills, which mature within one year, on June 29 of this year showed an increase of \$700,000,000 over the amount of Treasury bills and certificates held at the end of 1930, while bond holdings showed an increase of \$1,200,000,000. Since June 29, however, a substantial amount of Consols and Panama Canal bonds, which previously were used largely as security for National bank note circulation, have been retired. At the present time, therefore, it is probable that around 60 per cent of all Government securities held by member banks mature within five years, and a substantial proportion of these securities are of much less than five years maturity.

Security Markets

Except for a temporary sharp decline in share prices on October 1 and 2, attributed to the beginning of actual Italo-Ethiopian hostilities, the stock market pursued an upward course throughout October. Trading became somewhat more active, and the turnover in the week ended October 26 was the largest since February 1934.

Industrial stocks showed an average rise of about 9 per cent and by the 26th of the month reached new highs since April 1931, according to representative price averages. Public utility shares had an equally large percentage advance, but did not reach as high levels as were attained for a short time in August. Railroad stocks showed virtually no net advance for the month of October. Relative to the lows of this year reached in March, since which time stocks have been advancing rather steadily, industrial share prices show a rise of more than 50 per cent, utility stocks an advance of about 100 per cent, and railroad stocks an increase of about 30 per cent. Prices of bank stocks displayed a moderate upward tendency in October, following declines in the second half of August and in September.

Prices of domestic corporation bonds showed no marked change during October. Following an initial decline in the opening days of the month, prices held steady until the third week when quotations generally rose to levels slightly above those prevailing at the end of September, and not far below the highest levels of the year. On the whole, prices of industrial and public utility bonds near the end of October made more favorable comparisons with quotations a month earlier than did railroad issues. Foreign bonds moved irregularly in October.

New Financing

Public offerings of new securities, other than United States Government issues, came into the market in fairly large volume during October, though the aggregate,

judging from preliminary data, was not up to the totals for other recent months. Domestic corporation issues were around \$235,000,000, as compared with about \$275,000,000 in September, \$210,000,000 in August, and nearly \$550,000,000 in July. A very large part of the proceeds of these corporate issues continued to be for use in refunding outstanding security issues or in the repayment of bank loans. In the former category the principal issues were \$45,000,000 Illinois Bell Telephone Company 3½ per cent 35 year bonds priced at 102½, \$37,500,000 Virginia Electric and Power Company 4 per cent 20 year bonds priced at 101¼, \$26,000,000 Columbus Railway, Power and Light Company 4 per cent 30 year bonds priced at 101½, and \$20,000,000 Dayton Power and Light Company 3½ per cent 25 year bonds priced at 99½. The \$55,000,000 Anaconda Copper Mining Company 4½ per cent 15 year issue priced at 98½ was for the purpose of repaying bank loans. The month's corporate financing also included an issue of approximately \$24,200,000 of \$4.50 preferred stock of the Cleveland Electric Illuminating Company. The larger part of the proceeds of this issue will be used for the redemption at 110 of outstanding \$6 preferred stock, but a part of the proceeds will also go to the parent company which had previously acquired the stock and to that extent the issue represents new capital.

State and municipal security issues publicly offered were of limited volume. The State of New York borrowed \$60,000,000 until next June at the record low rate of 0.30 per cent, but these notes were placed with 77 financial institutions and comparatively little reoffered for public subscription. In addition, the Federal Intermediate Credit Banks marketed about \$23,500,000 of short term debentures in partial replacement of October maturities of about \$38,750,000.

Foreign Exchanges

The fear that the Italian-Ethiopian situation might have serious European repercussions and the concurrent growth of confidence in the progress of recovery in the United States have promoted an extremely heavy movement of funds to this country from abroad, and have been the principal influences operating in the foreign exchange market since the latter part of September. The movement reached its largest proportions late in September and in the early part of October, falling off somewhat thereafter. Since September, the movement of gold to this country, including gold now en route, has amounted to about \$480,000,000, and this movement has been almost exclusively a reflection of the inflow of capital.

A large part of the funds which flowed to New York during this period were transferred from London, and as a result the pound was subjected to exceedingly strong pressure. Although the British authorities undoubtedly drew heavily upon their gold holdings in order to support sterling, the rate receded moderately to a low of \$4.88¾ on October 4, as compared with a high of \$4.98¾ on August 14. Subsequently, however, some recovery occurred, and the pound showed no substantial net change for the month of October.

The French franc continued to be quoted at or below the gold shipping point from Paris to New York during

most of October, with the result that over \$200,000,000 of gold was sent from France to this country from September 9 onward. This drain on the gold holdings of the Bank of France was offset, however, by gold received from other countries, principally England and Italy. It seems likely, therefore, that the weakness of the franc during this period, while due partly to internal factors, was due chiefly to the position of the Paris exchange market as the principal international gold clearing center through which operations in support of other major currencies now are carried on.

Among the other currencies of the European gold bloc, the guilder recovered from \$0.6769 to a high of \$0.6792 on October 28, a level well above the lower gold point, while Swiss exchange receded somewhat in the latter part of the month, although it still remained above its lower gold point.

The Chinese exchanges showed marked weakness during October. The Shanghai dollar, which had remained fairly stable for several months in the neighborhood of 37 or 38 cents, dropped to a low of 31³/₈ cents on October 30.

Closing Cable Rates at New York

Exchange on	Oct. 31, 1934	Sept. 30, 1935	Oct. 30, 1935
Belgium.....	\$.2333	\$.1690	\$.1684
Denmark.....	.2225	.2193	.2197
England.....	4.9800	4.9100	4.9188
France.....	.06593	.06590	.06591
Germany.....	.4026	.4024	.4024
Holland.....	.6767	.6769	.6790
Italy.....	.0856	.0815	.0812
Norway.....	.2504	.2467	.2472
Spain.....	.1366	.1366	.1367
Sweden.....	.2570	.2530	.2536
Switzerland.....	.3258	.3254	.3252
Canada.....	1.0263	.9888	.9888
Argentina.....	.3320	.3273	.3279
Brazil.....	.0825	.0863	.0863
Uruguay.....	.8000	.8050	.8050
Japan.....	.2902	.2882	.2875
India.....	.3755	.3715	.3719
Shanghai.....	.3331	.3831	.3138

Gold Movement

The influx of gold from abroad which began in September continued in October, and during the course of the month imports of \$155,700,000 were received from France, \$108,100,000 from England, \$18,300,000 from the Netherlands, \$10,900,000 from India, \$8,700,000 from Canada, \$1,100,000 from China, and \$500,000 from Ecuador. The gold stock of the United States was further augmented by the deposit of newly mined domestic gold and scrap gold at the mints and assay offices and by a net release of \$500,000 of gold held under earmark at the Reserve Bank, and consequently the total rose approximately \$330,000,000 during the month. Gold amounting to \$2,200,000 received from Central and South American countries was immediately placed under earmark here and therefore had no effect on the gold stock.

Central Bank Rate Changes

The Netherlands Bank lowered its discount rate from 6 to 5 per cent on October 17 and again to 4¹/₂ per cent on the 22nd, following a strengthening of guilder exchange and a cessation of the gold outflow from Holland. Effective October 1 the Bank of Estonia rate was reduced

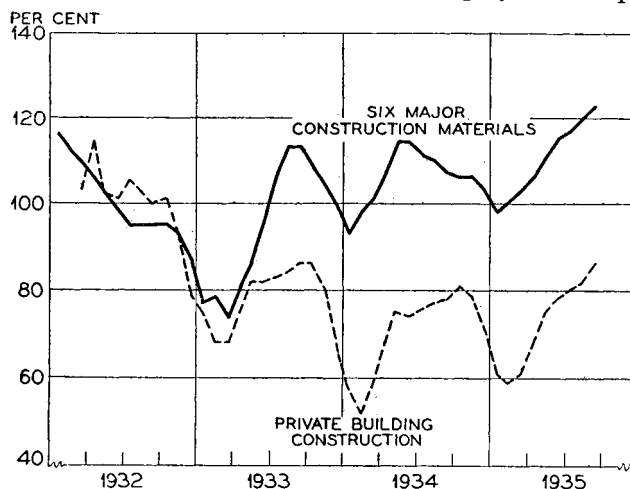
from 5 to 4 per cent, and on the 21st the Bank of Danzig lowered its rate from 6 to 5 per cent.

Employment and Payrolls

From the middle of August to the middle of September data on employment and payrolls in representative New York State factories, adjusted for seasonal variation, increased for the third consecutive month, bringing the employment index to a level 7 per cent above a year ago and the payroll index to a point 14 per cent higher. All of the major groups participated in the employment gains registered from mid-August to mid-September with the exception of the stone, clay, and glass group of industries. The most substantial gains occurred in the clothing and food industries which customarily increase the number of employees at this time of the year.

For the country as a whole, the Secretary of Labor estimated the gain in private employment during September at more than a third of a million workers and the increase in weekly payrolls at over \$12,000,000. Employment in manufacturing industries showed a relatively small increase after allowance for the usual seasonal advance, as large gains in many of the important industrial groups were offset to a considerable extent by temporary contraction of labor forces at automobile plants preparatory to the early introduction of new models. The increase in factory payrolls was more marked than that in employment, this bank's seasonally adjusted index advancing nearly 3 per cent in September to the highest level since May 1931.

Among nonmanufacturing industries, material increases in the number of workers employed in September were reported in retail trade, anthracite and bituminous coal mining, and in private building construction. The increase in employment in private building construction in September marked the seventh consecutive month in which gains have occurred, as the accompanying diagram shows. This rise has been paralleled during the current year by employment gains in a group of six industries producing important construction materials, such as structural steel, cement, and millwork. Employment in the building material industries, however, is at a higher level relative to 1932 than is employment in pri-



Employment in Private Building Construction and in the Manufacture of Important Building Materials (1932 average = 100 per cent)

vate building construction because of the influence of the demand for materials arising out of public works projects.

Commodity Prices

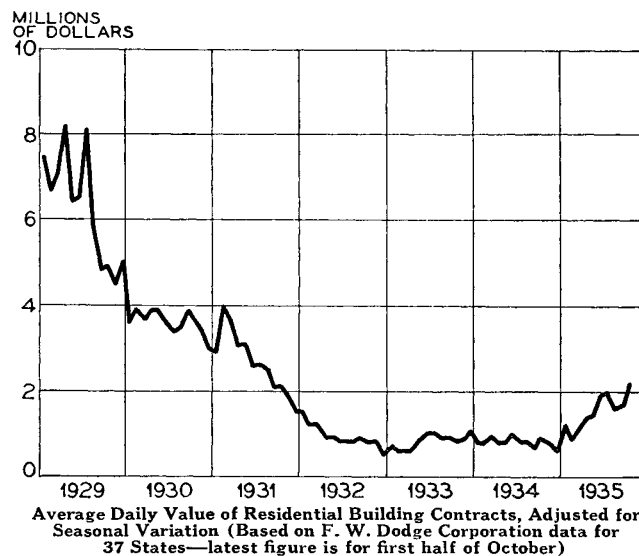
The principal basic commodities continued to advance during the first week of October, but subsequently prices moved irregularly with something of a downward tendency developing toward the end of the month. Silk again showed the most pronounced gain; during the course of the month the price of the raw product rose to the highest level since 1931, and despite some recession closed the month with a substantial advance over the end of September. The recent rise is reported to have been due in part to damage to the new crop in Japan, where the Japanese Government now estimates that the summer and fall cocoon crop will be at least 30 per cent below last year's level. The price of rubber rose to the highest level since early this year, and net gains occurred also in the prices of hides, wool, and cotton. Wheat prices, on the other hand, showed a net decline for October as a further advance in the first part of the month was followed by a recession subsequently. Hog prices also declined, largely as a result of seasonal factors, and corn prices dropped sharply in the last few days of October, after having shown earlier advances.

Among the metals, the domestic price of copper rose $\frac{1}{4}$ cent on October 7 to 9.25 cents a pound, the highest price in over four years. Substantial price advances in tin during the first half of October raised the spot quotation to the highest level since May 1934, and despite a subsequent decline there was a slight net advance for the month as a whole. Other metal prices were relatively steady during October.

Building

In the Metropolitan New York and Upstate New York area total construction contracts awarded during September were more than 30 per cent higher than in August and more than twice as large as in September 1934. The increase over August was confined to nonresidential construction and engineering projects, residential building declining approximately 7 per cent. For the first nine months of 1935, however, contracts for residential work were approximately 75 per cent, or \$35,000,000, higher than in the corresponding period of 1934. Public works and utility projects showed an increase of \$7,000,000 over 1934, but other nonresidential construction work was approximately \$3,000,000 less than a year ago. Altogether, total construction contracts amounted to \$245,000,000, or about \$40,000,000 more than in the first nine months of last year.

For the 37 States covered by the F. W. Dodge Corporation report continued expansion in residential building was the outstanding development during September. The recovery in residential building during the current year from the extremely low level of the previous three years is shown in the accompanying diagram, which is based on monthly data of average daily residential contracts, adjusted for recurring seasonal movements. During the first two weeks of October the average daily volume of residential contracts passed the \$2,000,000 mark for the first time in four years, and for the first



nine months of 1935 the total of residential contracts in the 37 States was 80 per cent above the corresponding period of 1934. This increase in residential contracts, however, has been accompanied by declines in other major types of construction, so that the total volume of contracts for the first three quarters of this year remained slightly below a year ago.

Production

Statistical evidence so far available indicates that there was some further increase in the general level of industrial activity in October. Steel production increased slightly, averaging approximately 52 per cent of capacity as compared with 51 per cent of capacity in September; automobile assemblies rose sharply, in contrast with the movement between September and October in previous years; cotton mills were reported to have accelerated operations to a greater than usual degree; and bituminous coal output also increased more rapidly than in most other years. Electric power production gained seasonally during October.

In September the volume of industrial production increased for the second successive month, the Board's seasonally adjusted index rising from 87 to 88 per cent of the 1923-25 average. There was a more than seasonal gain in manufactures, and the sub-index of mineral production rose from 81 to 86 as a result of a sharp recovery in output of anthracite coal. The rate of steel production rose 5 per cent over the August figure, and attained the highest level for any September since 1929. Expansion of greater than seasonal proportions in activity at cotton textile mills was evidenced by an 18 per cent rise in the rate of consumption of cotton, and there were also increases in deliveries of sugar, and in output of wheat flour, cement, zinc, and newsprint paper. On the other hand the transition to new models, accomplished this year two or three months earlier than usual, brought about a sharp curtailment in automobile assembly operations. There were also declines in activity at wool mills and lead refineries, and output of bituminous coal gained less than seasonally as a result of the strike in the last week of September.

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

	1934	1935		
	Sept.	July	Aug.	Sept.
Metals				
Pig iron.....	28	45	53	56
Steel ingots.....	33	56	69	72
Lead.....	45	50	50	48
Zinc.....	51	68	67	68
Automobiles				
Passenger cars.....	34	59	39	15 _p
Motor trucks.....	78	101	92	53 _p
Fuels				
Bituminous coal.....	67	60	63	60 _p
Anthracite coal.....	72	67	43	78 _p
Petroleum, crude.....	67	69	68	68 _p
Petroleum products.....	64	69	68	
Electric power.....	70	75	75 _p	75 _p
Textiles and Leather Products				
Cotton consumption.....	55 _r	72	72	79
Wool mill activity.....	45	121	127	113 _p
Silk mill activity.....	43	60	70	71 _p
Rayon deliveries*.....	76	105	116	114 _p
Shoes.....	83	105	98 _p	91 _p
Foods and Tobacco Products				
Meat packing.....	146	72	81	78
Wheat flour.....	87 _r	79 _r	68 _r	86 _r
Refined sugar deliveries.....	73	62	65	82 _p
Tobacco products.....	80	86	81	80
Miscellaneous				
Cement.....	42	42	36	39
Tires.....	54	51	59	
Newsprint paper.....	75	69	68	74 _p
Machine tools.....	34	106	99	73

p Preliminary r Revised * For quarter ended

Foreign Trade

During September exports of merchandise from the United States increased somewhat over the preceding month, while imports declined slightly, both movements being in the direction of the usual seasonal changes. Exports, amounting to \$198,000,000, were 4 per cent above the level of a year ago, and in fact were larger than in any September since 1930. Imports, at \$162,000,000, showed an increase of 23 per cent over a year ago and were larger than in September of any year since 1931.

Shipments abroad of raw cotton during September showed a large seasonal increase and for the first time in eighteen months were substantially above a year previous in quantity, but they continued to be somewhat smaller in value than in 1934 owing to the lower price of cotton. Exports of unmanufactured tobacco, on the other hand, were in about the same volume as a year ago, but were slightly larger in value. The number of passenger automobiles and motor trucks shipped abroad was less than in September 1934, while exports of other finished manufactures and likewise of crude foodstuffs, notably apples, showed substantial gains. Among the imports, large increases over a year ago occurred in receipts of wool, tin, copper, and nickel. There were moderate gains also in imports of burlap, newsprint paper, wood pulp, and crude rubber. Receipts of raw silk, however, were somewhat smaller in volume, although they continued to be larger in value than in 1934, due to materially higher prices. Sugar imports, owing to the exhaustion of our Cuban quota in August, were small and amounted to only a fraction of the exceptionally large figure of a year ago.

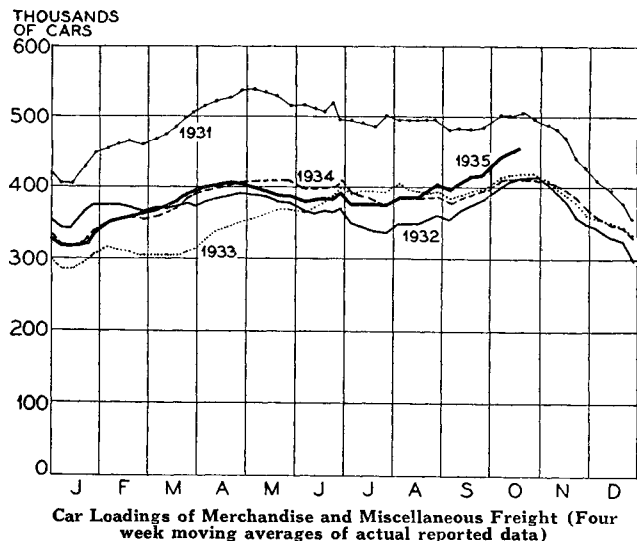
An estimate of this country's international balance of payments for the first half of 1935 has recently been

issued by the Department of Commerce. According to these data the surplus of receipts due to this country on account of current transactions in merchandise, services, and interest disappeared this year, a deficit of \$10,000,000 being shown for the first half year as contrasted with a surplus of \$466,000,000 for the full year 1934. This change has been due chiefly to the falling off in our excess of merchandise exports over imports, which amounted to only \$65,000,000 in the first nine months of 1935, as against \$319,000,000 in the corresponding period of last year. The decline which has occurred in agricultural exports has approximately offset an increase in sales abroad of American manufactured and industrial products, with the result that the total value of our exports has remained at about the same level as a year ago. Meanwhile, expanding industrial requirements for imported raw materials and increased imports of foodstuffs have brought about a substantial increase in merchandise imports.

Despite the fact that ordinary current transactions with the world were approximately in balance and despite large silver purchases abroad by the Treasury, the United States has received exceptionally heavy shipments of gold from other countries since the beginning of the year, due to a large inward movement of capital to this country. According to the figures released by the Department of Commerce covering the first half year, the inflow of capital chiefly took the form of a transfer of short term banking balances, although there was also considerable foreign buying of securities in this market.

Indexes of Business Activity

During the first three weeks of October, the railroad movement of merchandise and miscellaneous freight continued to increase by more than seasonal proportions, so that this type of traffic was at the highest level for the season since 1931, as is indicated in the accompanying diagram. Furthermore, unusually large gains in certain types of bulk freight car loadings caused an unseasonal rise in the movement of heavy freight. Less than the average seasonal rise, however, was indicated in sales of department stores in the Metropolitan area of New York during the first half of the month, but trade reports from



outside New York indicate a somewhat more favorable experience in other parts of the country.

Distribution of goods and general business activity during September compared favorably with the previous month. Retail trade showed an advance, more than the average seasonal gains occurring in the sales of mail order houses, department store sales in this district, and sales of chain stores. A pronounced rise was also shown in railroad freight shipments, and about the usual gain was indicated in the volume of check transactions. Recessions occurred, however, in the seasonally adjusted indexes of advertising and sales of new passenger cars.

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

	1934	1935		
	Sept.	July	Aug.	Sept.
<i>Primary Distribution</i>				
Car loadings, merchandise and misc.	55	58	58	59
Car loadings, other	58	52	57	60
Exports	51	52	48	53 _p
Imports	57	80	66	68 _p
Wholesale trade	86	93	93	87
<i>Distribution to Consumer</i>				
Department store sales, U. S.	74	76	79	79
Department store sales, 2nd Dist.	71	66	70	74
Chain grocery sales	65	59	58	61
Other chain store sales	86	78	82	83
Mail order house sales	75	71	71	76
Advertising	56	58	60	58
New passenger car registrations	47	62	58 _p	48 _p
Gasoline consumption	68	70	74	
<i>General Business Activity</i>				
Bank debits, outside New York City	60	66	65	65 _p
Bank debits, New York City	41	50	46	45
Velocity of demand deposits, outside New York City	66	68	67	68
Velocity of demand deposits, New York City	45	49	45	44
New life insurance sales	60	56	55	57
Factory employment, United States	75	82	83	83 _p
Business failures	42	42	42	41
Building contracts	20	26	29	29 _p
New corporations formed in N. Y. State	59	60	59	63
General price level*	139	145	146	147 _p
Composite index of wages*	179	186	187	187 _p
Cost of living*	139	140	142	143

p Preliminary * 1913 average=100

Department Store Trade

During the first half of October, total sales of the reporting department stores in the Metropolitan area of New York were 0.3 per cent below the corresponding period a year ago. Somewhat less than the usual seasonal expansion from September appeared to have occurred in this period of October, which was attended by unseasonably warm weather and the incidence this year of the Columbus Day holiday on a Saturday.

During September, total sales of the reporting department stores in this district showed more than the usual seasonal rise and were 10.8 per cent ahead of last year, the largest advance recorded since March 1934. Sales of the Buffalo, Rochester, Syracuse, and New York City stores showed the most favorable comparisons with a year previous since March 1934, considering differences in the number of shopping days, and Bridgeport, Capital District, Northern New Jersey, and Westchester and Stamford stores reported the most favorable in several months. Sales of the reporting Southern New York State stores showed the same moderate increase as was indicated last month, while sales of the Northern New York State stores showed a smaller increase than in the

previous few months, and sales of the Hudson River Valley District department stores were lower than last year following an advance in the previous month. Sales of the leading apparel stores in this district were 18½ per cent higher than last year, the most substantial increase since March 1934.

Stocks of merchandise on hand, at retail valuation, continued lower than last year in the department stores, and moderately higher in the apparel stores.

Locality	Percentage change September 1935 compared with September 1934		Per cent of accounts outstanding August 31 collected in September	
	Net sales	Stock on hand end of month	1934	1935
New York	+11.4	- 2.7	43.4	45.7
Buffalo	+14.6	- 3.4	46.5	44.7
Rochester	+14.1	+ 1.9	40.3	42.2
Syracuse	+23.1	- 8.8	31.0	34.0
Northern New Jersey	+ 6.6	- 0.6	36.4	38.5
Bridgeport	+ 8.4	- 0.3	33.0	36.1
Elsewhere	+ 3.7	- 7.0	24.7	27.6
Northern New York State	+ 0.9	.....	.....	.....
Southern New York State	+ 5.3	.....	.....	.....
Hudson River Valley District	- 0.8	.....	.....	.....
Capital District	+ 7.1	.....	.....	.....
Westchester and Stamford	+ 3.2	.....	.....	.....
All department stores	+10.8	- 2.7	39.7	41.9
Apparel stores	+18.5	+ 4.8	35.9	38.3

Wholesale Trade

In September total sales of the reporting wholesale firms in this district averaged 13.1 per cent higher than last year, which with the exception of the increase in July was the most substantial advance recorded this year. Sales of cotton goods and diamonds made the most favorable comparisons with a year previous since the spring of 1934, yardage sales of silk goods showed the most substantial advance since the fall of 1934, and sales of hardware and stationery were above a year ago by the largest percentages in 7 to 9 months. The increases reported by the grocery, shoe, drug, paper, and jewelry concerns were larger than in the previous month, and sales of men's clothing were ahead of a year ago by almost as large a percentage as in August.

Commodity	Percentage change September 1935 compared with September 1934		Per cent of accounts outstanding August 31 collected in September	
	Net sales	Stock on hand end of month	1934	1935
Groceries	+ 2.2	- 5.5	93.2	87.4
Men's clothing	+21.0	.....	40.8	47.5
Cotton goods	+24.4	.....	38.1	40.0
Silk goods	+26.1*	+16.8*	57.9	56.3
Shoes	+ 4.7	.....	37.1	35.1
Drugs	+ 8.6	- 7.5	37.3	23.2
Hardware	+ 9.2	+ 1.2	44.3	46.8
Stationery	+ 7.4	.....	40.6	52.8
Paper	+16.0	.....	45.8	43.2
Diamonds	+86.4	+15.7	21.8	24.9
Jewelry	+20.8	- 8.0		
Weighted average	+13.1	.....	55.6	54.8

* 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, NOVEMBER 1, 1935

Business Conditions in the United States

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

INDUSTRIAL production and employment increased in September and distribution of commodities to consumers was in larger volume, reflecting in part seasonal influences. The general level of wholesale prices showed little change.

PRODUCTION AND EMPLOYMENT

Output at factories and mines, as measured by the Board's seasonally adjusted index of industrial production, advanced from 87 per cent of the 1923-1925 average in August to 88 per cent in September, reflecting chiefly increases in the output of iron and steel, lumber, cotton and silk textiles, and anthracite, offset in part in the total by declines in the production of automobiles and woolen textiles. At steel mills activity increased from 49 per cent of capacity in August to 51 per cent in September, and during the first three weeks of October continued at about the September level. At automobile factories a sharp decline in output during September, as preparations were made for new models, was followed in the early part of October by a rapid advance. Lumber production continued to increase in September. In the cotton textile industry, where output had been at a relatively low level since April, activity showed a marked increase in September and there was also an increase in output at silk mills, while at woolen mills, where activity had been at an exceptionally high level for several months, there was a decline.

Factory employment showed a seasonal increase between the middle of August and the middle of September. The number employed at foundries and in the lumber, nonferrous metals, and machinery industries increased substantially, while in the automobile industry there was a considerable decline. At cotton mills employment showed a seasonal increase and at silk and rayon mills there was an increase of more than the usual seasonal amount, while employment at woolen mills and shoe factories declined.

The value of construction contracts awarded, as reported by the F. W. Dodge Corporation, was about the same in the six weeks ended October 15 as in the previous six weeks, reflecting an increase in residential building, partly of a seasonal character, and a slight decline in other types of construction.

DISTRIBUTION

Freight car loadings showed an increase of more than the usual seasonal amount in September and increased further in the first half of October. Department store sales also increased by more than the estimated seasonal amount in September, and for the third quarter the average of the Board's seasonally adjusted index was 80 per cent of the 1923-1925 average as compared with 75 per cent a year ago.

COMMODITY PRICES

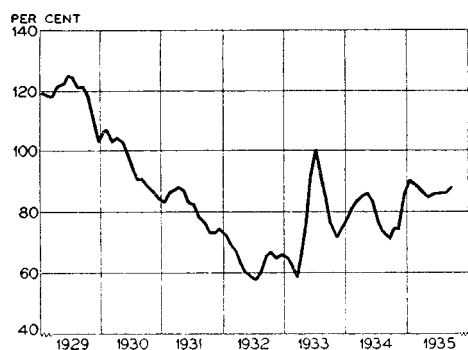
The general level of wholesale commodity prices, as measured by the index of the Bureau of Labor Statistics, showed little change during September and the first three weeks of October. Prices of grains decreased in the middle of October, following a considerable advance, while prices of silk, hides, and copper increased throughout the period.

BANK CREDIT

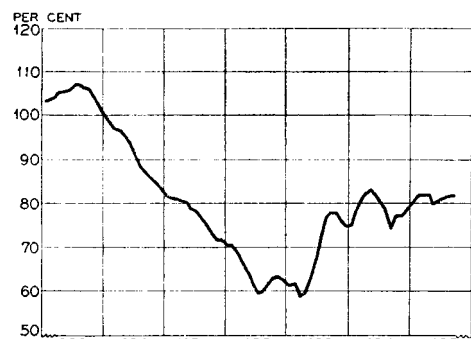
Reserves of member banks continued to increase during the five weeks ended October 23, reflecting chiefly imports of gold from abroad. At the end of the period reserves in excess of legal requirements at \$2,930,000,000 were at the highest level on record.

At weekly reporting member banks in 91 leading cities adjusted demand deposits increased by \$40,000,000 during the four weeks ended October 16, while United States Government deposits declined and inter-bank balances rose to a new high level. Loans on securities decreased by \$40,000,000, while other loans, including commercial credits, increased by \$80,000,000.

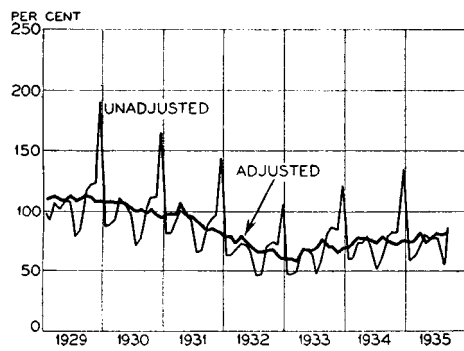
Yields on both short term and long term Government obligations increased from the last week in August to the first part of October and subsequently declined. Other short term open market money rates remained at previous low levels.



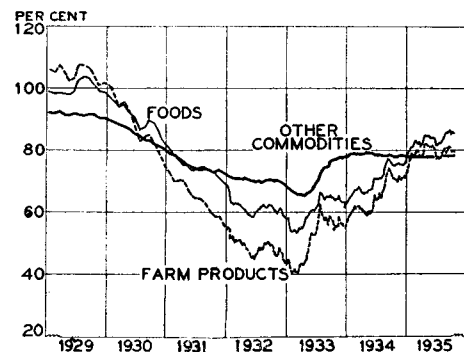
Index Number of Production of Manufactures and Minerals Combined, Adjusted for Seasonal Variation (1923-25 average = 100 per cent)



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



Indexes of Daily Average Value of Department Store Sales (1923-25 average = 100 per cent)



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