

MONTHLY REVIEW

of Credit and Business Conditions

Second Federal Reserve District

Federal Reserve Agent

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Money Market in December

Excess reserves of member banks, after rising to new high levels in the first half of December, subsequently showed a sharp decline both in New York City and in the country as a whole, as the accompanying diagram shows. In New York City excess reserves which had risen above \$1,500,000,000 were reduced to around \$1,150,000,000 in the latter part of December, and for the country as a whole member bank excess reserves were reduced from more than \$3,300,000,000 to around \$2,700,000,000. This reduction did not have any effect on money conditions or rates.

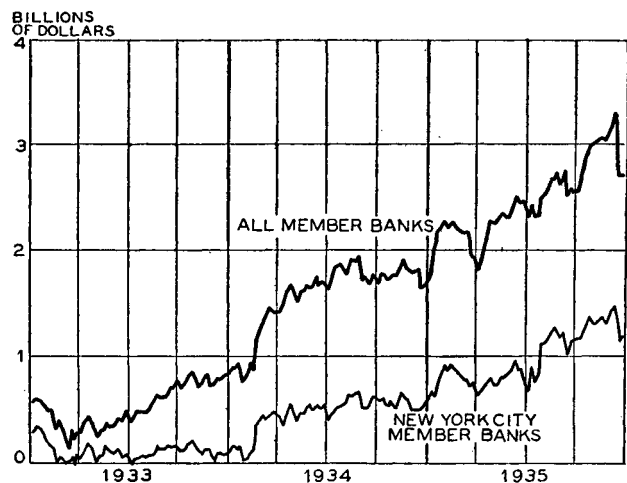
The principal factor in this sudden reversal of the movement of excess bank reserves was an unusually large volume of cash payments for new Government securities sold on the December tax date. In past years, the new Treasury issues have been paid for very largely with deposits credited to the Government, which were drawn upon only when required to meet Government expenditures. This December, however, due to the large volume of idle funds held by the banks, only about one-third of the new securities were paid for with book credit, although a large volume of new securities was sold, and the rest were paid for in cash. As the amount of new securities issued in addition to those exchanged for maturing securities was nearly \$975,000,000, payments for these securities resulted in the transfer of more than \$600,000,000 from member bank reserve balances to Treasury balances in the Reserve Banks during the week ended December 18. Other Treasury receipts and expenditures were about in balance, income tax collections and other Government revenues being sufficient to meet interest payments on Government debt and other disbursements.

More than half of the cash payments for new Treasury securities were made in New York, but apparently a considerable part of these payments were for the account of out of town banks, as the holdings of Government securities by the New York City banks for their own account showed an increase of considerably smaller amount than their payments to the Government, and at the same time the amount of balances held for corres-

pondent banks in other parts of the country showed a fairly sizable decline in the week ended December 18. It has been apparent for some time that a large part of the excess reserves held by the New York City banks in reality represented idle funds belonging to their correspondent banks in other localities. Balances of such banks with the New York City banks in the early part of December were close to \$2,000,000,000, as compared with balances of around \$600,000,000 to \$700,000,000 in 1928 and 1929, but in the latter part of the month declined to below \$500,000,000.

Currency withdrawals from all Reserve Banks to finance Christmas trade corresponded closely in total amount with the average movement in past years, amounting between November 20 and December 24 to about \$250,000,000. The increase in the gold stock of the United States during that period amounted to \$310,000,000.

Although the reduction in member bank reserves after the middle of December was the sharpest that has occurred so far, it left so large a volume of excess reserves that there was no perceptible effect on money rates. As the following table indicates, money rates at the end of December were practically the same as at the end of November, and, it might also be noted, did not differ



Excess Reserves of New York City Member Banks and of All Member Banks in the United States (Latest figures are for December 24)

greatly from a year ago, when the volume of member bank reserves was much smaller.

Money Rates at New York

	Dec. 31, 1934	Nov. 29, 1935	Dec. 30, 1935
Stock Exchange call loans.....	1	$\frac{3}{4}$	$\frac{3}{4}$
Stock Exchange 90 day loans.....	* $\frac{3}{4}$ -1	$\frac{3}{4}$	*1
Prime commercial paper—4 to 6 months.....	$\frac{3}{4}$ -1	$\frac{3}{4}$	$\frac{3}{4}$
Bill—90 day unindorsed.....	$\frac{1}{2}$	$\frac{1}{2}$	$\frac{1}{2}$
Customers' rates on commercial loans. (Average rate of leading banks at middle of month)	1.96	1.67	1.75
Treasury securities:			
Maturing June (yield).....	No yield	No yield	No yield
Maturing April 1937 (yield).....	....	0.10	0.04
Average yield on Treasury notes (1-5 years).....	1.13	0.73	†0.74
Average yield on Treasury bonds (more than 5 years to earliest call date).....	2.83	2.58	2.51
Average rate on latest Treasury bill sales 273-274 day issue.....	....	0.13	0.08
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.	$\frac{3}{8}$	$\frac{1}{2}$	$\frac{1}{2}$

*Nominal. †Average raised 0.11 by substitution of new issue for an issue maturing within one year.

Excess Reserves of Member Banks (Approximate amounts in millions of dollars)

	Dec. 26, 1934	Nov. 27, 1935	Dec. 24, 1935
New York City.....	583	1,311	1,165
All Member Banks.....	1,678	3,060	2,700

MEMBER BANK CREDIT

Due largely to purchases of new Government securities on December 16, the total loans and investments of weekly reporting member banks in New York City rose on December 18 to a new high level since March 1931, and for the country as a whole reached the highest level since November 1931. The increase in holdings of Government securities between November 20 and December 18 amounted to approximately \$70,000,000 for the New York City member banks, and was \$310,000,000 for all reporting banks, as compared with an excess of new Treasury issues over maturities of \$972,000,000. Other securities showed a small net reduction for the month, but the volume of loans increased somewhat. In New York City, security loans increased \$115,000,000 during the four weeks, and for the country as a whole the increase was nearly \$150,000,000. A considerable part of this increase reflected borrowings of Government security dealers to finance their operations in connection with December Treasury financing, but a smaller part apparently reflected a moderate increase in the borrowings of security brokers. All other loans, after showing a substantial increase in the latter part of November, largely in connection with the financing of gold imports, declined during the first three weeks of December and showed practically no net change between November 20 and December 18 for the New York City banks, but showed a net increase of \$38,000,000 for all weekly reporting member banks.

GOVERNMENT SECURITIES

December quarterly financing by the Treasury comprised the sale of \$737,000,000 of 1 $\frac{1}{2}$ per cent notes due in 1940 and \$646,000,000 of 2 $\frac{3}{4}$ per cent bonds due in 1945-47. Of the new notes, \$249,000,000 were issued in exchange for notes which matured December 16, and \$161,000,000 of the bonds were also issued in exchange for the maturing notes, leaving \$972,000,000 of new notes

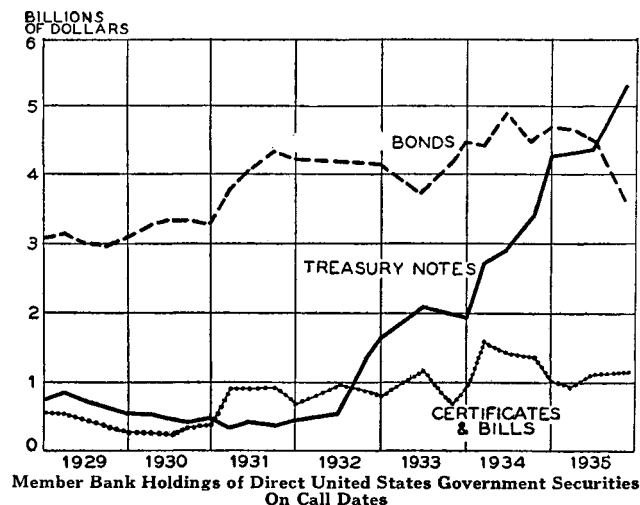
and bonds which represented an addition to the public debt. Quotations on the new issues immediately advanced to a premium in the market, and toward the close of the month the bonds were selling at about 101 and the notes at about 100 $\frac{5}{8}$. Prices of other Government securities were generally firm during December, and average yields on outstanding bonds and notes showed moderate recessions. Treasury bill issues put out during December aggregated \$250,000,000 and replaced five \$50,000,000 bill maturities. The average rate on these bills of approximately 9 months maturity continued to decline, the issue dated December 31 being placed at 0.08 per cent, as compared with 0.13 per cent on the last November flotation.

In view of the large increase in the National debt since 1930, and the accompanying increase in bank holdings of Government securities, data from November 1, 1935 condition statements are of interest in showing the types of securities that have been acquired by member banks. In the period between the end of 1930, when the debt reached its post-war low, and November 1, 1935, member bank holdings of direct Government obligations rose \$5,955,000,000 to \$10,080,000,000, or considerably more than double the 1930 holdings, while the interest bearing debt of the Government rose \$12,600,000,000 to \$28,380,000,000. Member banks on November 1, 1935 thus held 36 per cent of the interest bearing National debt compared with 26 per cent in 1930. These figures do not include the December 1935 financing.

As the accompanying diagram indicates, most of the increase in bank holdings since 1930 has been in Treasury notes, that is, in securities of 1 to 5 year maturity, which have risen nearly \$4,800,000,000. Meanwhile, holdings of certificates of indebtedness and bills, which mature within 1 year, have increased about \$760,000,000 and the banks' portfolios of Government bonds have also grown by \$400,000,000. The following table shows a classification of member bank holdings of Government securities at the end of 1930 and on November 1, 1935, and the percentages of the various types of Government obligations outstanding that are held by member banks.

	Amounts in millions of dollars		Per cent of total outstanding	
	Dec. 31, 1930	Nov. 1, 1935	Dec. 31, 1930	Nov. 1, 1935
Treasury bills and certificates....	369	1,131	28	46
Treasury notes.....	485	5,281	21	44
Government bonds.....	3,271	3,668	27	26
Total.....	4,125	10,080	26	36

A large decline in the banks' holdings of Government bonds occurred between the June 29, 1935 and November 1, 1935 call dates, reflecting the redemption of the Consols and Panama bonds bearing the circulation privilege and also the retirement of the remaining portion of the Fourth Liberty Loan, and the called bonds apparently have been replaced largely in member bank portfolios by Treasury notes. Although member bank holdings of Government bonds show comparatively little net increase over five years ago, it should be noted that the average maturity of bonds now held is longer than that of bonds held in 1930, which then included large amounts



of Liberty Loan bonds subsequently retired. Furthermore, member banks have acquired \$1,764,000,000 of Government guaranteed securities during the past two years, which are not included in the table above.

BILLS AND COMMERCIAL PAPER

Conditions in the bill market continued virtually unchanged during December. Increases of \$13,000,000 in domestic warehouse credits and of \$9,000,000 in export bills were chiefly responsible for a \$24,000,000 rise during November in total bills outstanding. While the total of \$387,000,000 on November 30 remained considerably smaller than a year previous, the November increase, together with that of October, totaled \$59,000,000, or nearly three times the increase during the corresponding months of 1934, and represented the largest increase for the comparable period of any year since 1930.

The commercial paper market in December also showed little change from the dullness of previous months. Sales of commercial paper by dealers continued to be restricted by the limited supply, despite an active demand for business notes by investing banks. The rate of $\frac{3}{4}$ per cent for prime paper previously quoted remained in effect. Commercial paper dealers had outstanding a total of \$178,400,000 of paper at the end of November, as against \$180,400,000 in October, and \$177,900,000 a year previous.

Security Markets

Domestic corporation bond prices on the whole showed further moderate advances during December. Representative price averages rose about $\frac{1}{2}$ point, with railroad bonds, especially the less high grade issues, showing the largest advances. During the past year there has been a further gradual narrowing of the span between yields on high grade corporation bonds and yields on lower grade issues. Toward the end of December, the yield on Aaa bonds averaged 3.72 per cent and the yield on Baa bonds 5.36 per cent, according to Moody's Investors' Service data, making the spread 1.64 per cent, as compared with 2.42 per cent a year ago and with a maximum spread of about $6\frac{1}{4}$ per cent during the first half of 1932. Improvement in business conditions has been accompanied by a further drop of nearly one per cent in the yield on Baa bonds during the past year,

while for Aaa bonds, which had already advanced to such an extent that yields had dropped to the lowest level for many years, the yield declined only about 0.08 per cent further.

Stock prices fluctuated without definite tendency during December and the volume of trading was less than in November. An advance in the first week of the month largely offset the recession of the closing days of November, but this advance was followed by an irregular decline which continued through the middle of the month. Subsequently, prices held within a narrow range, until the closing days of the month when quotations advanced slightly to levels somewhat higher than those prevailing at the close of November.

New Financing

The volume of new security offerings continued in fairly large amount during December largely because of the sale of \$100,000,000 Federal Land Bank bonds. This was a 3 per cent consolidated issue due in 1956 and callable beginning in 1946; priced at $98\frac{3}{4}$ the bonds yield 3.08 per cent. Of the proceeds, \$62,700,000 is to be used for the retirement on January 2, 1936 of $4\frac{1}{2}$ per cent bonds of the individual Land Banks and the remainder is to be used for loaning and general corporate purposes. There was one other issue of rather large size—\$45,000,000 Southwestern Bell Telephone Company bonds which was for refunding purposes. Otherwise, the individual issues publicly offered during the month were either of moderate size or quite small, although the number of issues, especially State and municipal financing, was comparatively large. Railroad financing was represented in the month's total by the sale of \$18,400,000 of Pennsylvania Railroad equipment trust certificates, on which the yields range from 0.50 to 3.00 per cent over a period of 1 to 15 years; the railroad will use the funds realized for new freight car construction.

Foreign Exchanges

The principal development in the European currencies early in December was the recovery in the French franc. The subsidence of pressure against franc exchange and the recovery of the rate on December 6 to a level above the gold import point at New York were the result of a halting of the outflow of capital from France, owing to a change in the immediate political situation with which the question of the future of the franc is publicly associated. The quotation remained above the gold shipping point to New York until the latter part of December, when a brief recurrence of doubts concerning the ability of the Laval Government to maintain its Parliamentary majority caused a temporary reaction in the rate to the vicinity of the gold import point. The demand for foreign currencies in Paris did not reach exceptional proportions at that time, however, with only a small amount of gold engaged in France for shipment to this country, and after the Laval Government had again obtained a vote of confidence the franc rose above the gold import point on December 30.

Among the other gold bloc exchanges, the Swiss franc was quite weak in the early part of December, but recovered thereafter, while the Dutch guilder remained

above its lower gold point throughout the month. The sterling-dollar rate was quoted in the vicinity of \$4.93, day to day fluctuations being confined to an exceedingly narrow range, and currencies of the sterling area showed similar stability.

The Chinese exchanges were affected both by developments in the world silver market and by developments in North China, which led to a renewed outflow of funds, following the brief inward movement which began in November after the announcement of the new Chinese monetary and banking program. The Shanghai dollar remained fairly stable, being quoted at 29 $\frac{7}{8}$ cents on December 2 and 29 $\frac{3}{4}$ cents on December 30. Extensive nervous selling of Chinese exchange was reported, and the stability of the Shanghai rate is believed to have been the result of substantial supporting operations on the part of the Chinese authorities. The Hongkong dollar, after declining from 50 $\frac{3}{8}$ cents at the end of September to a low of 34 $\frac{1}{8}$ cents on November 9, and recovering to 36 $\frac{7}{8}$ cents on November 30, had a renewed decline in the early part of December, established a new low of 31 $\frac{5}{8}$ cents on December 12, and was quoted at 32 $\frac{3}{8}$ cents on December 30.

Closing Cable Rates at New York

Exchange on	Dec. 31, 1934	Nov. 30, 1935	Dec. 30, 1935
Belgium.....	\$.2352	\$.1691	\$.1687
Denmark.....	.2207	.2203	.2202
England.....	4.9425	4.9350	4.9313
France.....	.06618	.06588	.06616
Germany.....	.4032	.4023	.4025
Holland.....	.6782	.6770	.6790
Italy.....	.0857	.0810	.0806
Norway.....	.2485	.2481	.2478
Spain.....	.1373	.1365	.1371
Sweden.....	.2550	.2543	.2543
Switzerland.....	.3250	.3233	.3256
Canada.....	1.0075	.9888	.9938
Argentina.....	.3294	.3288	.3288
Brazil.....	.0819	.0855	.0860
Uruguay.....	.8000	.8050	.8050
Japan.....	.2880	.2876	.2881
India.....	.3725	.3725	.3727
Shanghai.....	.3475	.2994	.2975

Gold Movement

The movement of gold to this country which began in September continued in large volume until the middle of December. After the 14th there were no receipts from France, but some gold continued to arrive from England and India.

Total imports of gold at New York for the month of December amounted to \$176,000,000 of which \$143,800,000 came from France, \$10,800,000 from India, \$8,600,000 from Canada, \$7,800,000 from England, \$4,700,000 from Holland, and \$300,000 from Russia. On the Pacific Coast \$1,900,000 was received from China and \$1,400,000 from Australia and New Zealand.

Imports, together with the release of \$1,700,000 of gold held under earmark for foreign account at the New York Reserve Bank, and the acquisition by the mints and assay offices of newly mined and scrap gold, raised the total monetary gold of the country by approximately \$200,000,000 during December. An additional \$500,000 of gold which was imported from Central and South American countries was placed under earmark at the Federal Reserve Bank of New York and therefore had no effect on the gold stock.

Central Bank Rate Changes

Effective January 2, 1936, the Bank of France has lowered its discount rate from 6 to 5 per cent, the rate for advances on securities from 7 to 6 per cent, and the rate of advances of 30 days' maximum on Government securities of definite maturity not exceeding two years, from 6 to 5 per cent.

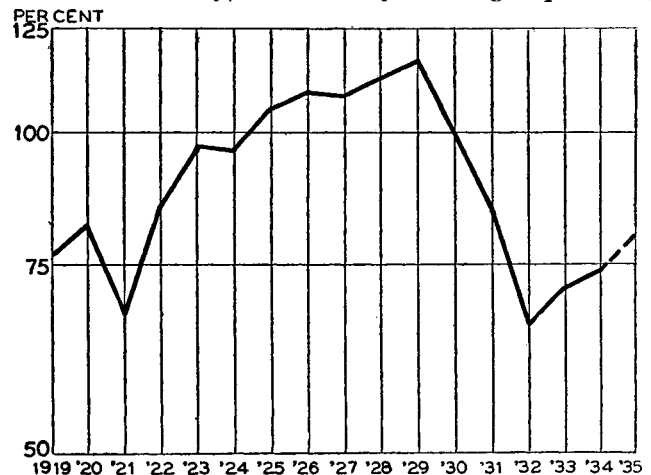
The National Bank of Czechoslovakia has announced a reduction in its discount rate from 3 $\frac{1}{2}$ to 3 per cent effective on January 1. The higher rate has been in effect since January 25, 1933.

Production and Trade in 1935

The volume of production and trade in 1935 aggregated approximately 8 per cent more than in 1934, according to a preliminary estimate made by this bank. It would appear that for the year as a whole the percentage increase over 1934 was of approximately the same dimensions as the rise for the year 1933 over 1932 and considerably in excess of the increase between 1933 and 1934. In comparison with 1929 volume, the 1935 volume is estimated to have been approximately 30 per cent less.

The recovery of the past three years relative to the decline between 1929 and 1932 is shown in the accompanying diagram which is based on this bank's final estimates of the volume of production and trade for each year between 1919 and 1934, as computed from data on over 200 business series, and on the preliminary estimate for 1935 computed from figures for those principal groups of data which are available fairly promptly, and have in the past given reasonably close indication of the movements in the complete data. Included in the preliminary estimate are series on the production of manufactures and minerals, agricultural production, car loadings of merchandise and miscellaneous freight over the railroads, and construction contracts. Data for at least the first 11 months of 1935 were used in combination with estimates for the remaining portion of the year.

The output of manufactures continued during 1935 to lead in the recovery, 1935 activity in this group showing



Index of General Production and Trade in the United States (Preliminary estimate for 1935 based on principal series—ratio scale used to show proportionate changes; 1923-25 average = 100 per cent)

an increase of about 14 per cent over 1934, and a restoration of about 46 per cent of the ground lost between 1929 and 1932. Mineral production increased about 6 per cent in 1935, and has recovered to about the same extent as manufacturing activity since 1932. In general trade, however, the recovery through 1935 appears to have been considerably less than in basic production. In the case of railroad loadings of merchandise and miscellaneous freight the increase was only 3 per cent from 1934 to 1935, and the recovery from 1932 accounted for less than one-ninth of the 1929-1932 drop. An increase of about 9 per cent occurred in total building and engineering construction, reflecting primarily recovery in residential building, but in this case also the 1935 level indicated that only one-ninth of the 1929-1933 loss had been regained.

The output of agricultural products for sale or consumption on farms is estimated to have been about the same in 1935 as in 1934; field and truck crops were considerably larger than in 1934 when output was severely cut by drought, but this increase was offset by a sharp drop in production of livestock and livestock products which was influenced more by the drought in 1935 than in 1934. Total agricultural output, therefore, remained at the lowest level in a number of years.

Employment and Payrolls

From the middle of October to the middle of November employment in representative New York State factories decreased by somewhat more than the usual seasonal proportions, following increases in the preceding three months which were larger than the average rise in the corresponding period of previous years. Factory payrolls also declined more than seasonally, due in part to the closing of a number of plants on Armistice Day which fell in the mid-November pay period. Reductions in working forces in the clothing industries were somewhat larger than usual, probably due to a rather unfavorable season for retail sales of apparel. Decreases occurred also in the leather products and food industries, but there were gains in the textile and metals and machinery groups.

For the United States as a whole, employment and payrolls in manufacturing industries showed the smallest decreases from the middle of October to the middle of November for any similar period in the past ten years. A sharp increase in employment and payrolls in the automobile industry, which advanced its production schedules two months this year, was an important factor that prevented the usual seasonal declines in total industrial employment. Employment gains were also indicated, however, in more than half of the 89 industries reporting to the Bureau of Labor Statistics, including such groups of major importance as iron and steel products, cotton and woolen goods, meat packing, and machinery. Seasonal declines occurred in the food products, wearing apparel, leather products, and building construction materials industries.

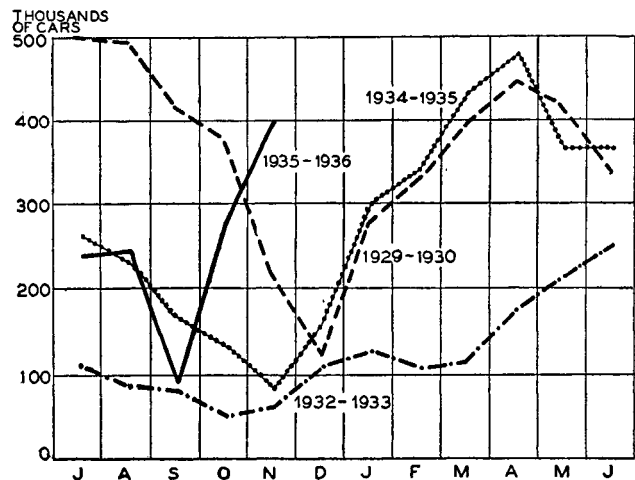
Among the nonmanufacturing industries, employment and payrolls were sharply curtailed in anthracite coal mining and in private building construction, but these declines were offset in part by seasonal increases in retail and wholesale trade. In public employment there

was a gain of more than 600,000 in the number of workers employed on construction projects financed under the Emergency Relief Act of 1935, bringing the total number employed on this program as of November 15 to approximately one and one quarter million persons, and a substantial further increase is reported to have occurred subsequently.

Production

Preliminary data indicate that the volume of industrial production was maintained in December at the levels reached in the preceding month, or even increased further after allowance for usual seasonal variations. It is estimated that four million motor cars were produced during the year 1935, a figure exceeded in only five previous years, and the output during December is reported to have been the largest on record for that month. In most years preceding 1930, December was the lowest month for automobile output and in the period from 1930 through 1934 October or November was the lowest month, but in 1935 production reached its low ebb in September and the subsequent sharp increase in output took place at a time when operations in other years were declining. The accompanying diagram indicates the extent to which automobile production has differed this year from the several other recent years. Associated with the increase in automobile output, but also with well maintained demand in other steel consuming lines, steel mill operations continued to rise in the first week of December, and the subsequent moderate curtailment probably did not reduce the average operating ratio for December materially below the 55 per cent of capacity average for November. Electric power output increased seasonally during December to new high levels, and cotton textile operations and bituminous coal output during the first part of December were reported to have been practically unchanged from the levels of the preceding month.

During November there was an expansion in the general volume of industrial production for the fourth consecutive month, and the seasonally adjusted index of the Board of Governors of the Federal Reserve System rose to 97 per cent of the 1923-25 average, as compared



Production of Passenger Automobiles and Trucks During July to November 1935, Compared with Output in Three Recent Years

with 95 in October and 90 in September. With the exception of one month during the spurt in the summer of 1933, the index reached the highest point since the first half of 1930. The expansion in November reflected gains in a variety of manufacturing industries, but especially the unusual rise in operations at automobile plants. Steel production increased in November, contrary to the tendency in other years, to an average level 4 per cent above that of October; the rate of pig iron output in November was the largest in five years; the rise in electric power production was greater than that usually experienced between October and November; operations at cotton and wool mills advanced further; and cement production, which ordinarily declines sharply with the approach of cold weather, remained close to the October level. There was little change in operations at meat packing plants, as measured by the rate of livestock slaughtering, but moderate reductions were reported in bituminous coal mining, in lead output, in wheat flour production, and in deliveries of rayon.

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

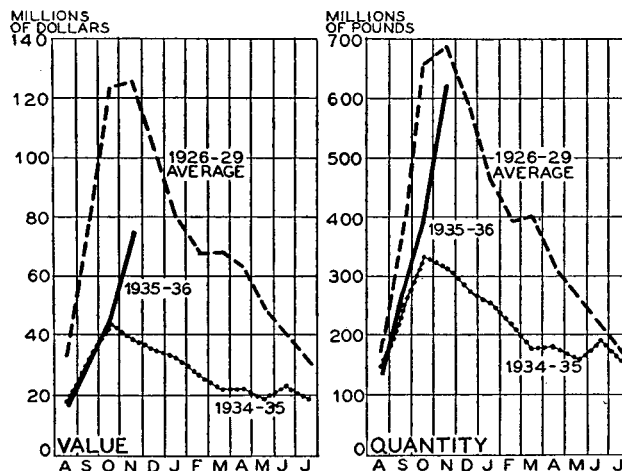
	1934		1935	
	Nov.	Sept.	Oct.	Nov.
Metals				
Pig iron.....	32	56	62	69
Steel ingots.....	42	72	72 ^r	81
Lead.....	46	48	56	54
Zinc.....	67	68	66	72
Automobiles				
Passenger cars [▲]	25	15	80	171 ^p
Motor trucks [▲]	77	53	101	133 ^p
Fuels				
Bituminous coal.....	67	61	76	73 ^p
Anthracite coal.....	71	78	57	55 ^p
Petroleum, crude.....	65	69	71	70 ^p
Petroleum products.....	66	70	70	
Electric power.....	70	74	74 ^p	76 ^p
Textiles and Leather Products				
Cotton consumption.....	78	79	83	86
Wool mill activity.....	73	114	124	131 ^p
Silk mill activity.....	64	71	70	63
Rayon deliveries*.....	74	114	104	99 ^p
Shoes.....	94	95	99	99 ^p
Foods and Tobacco Products				
Meat packing.....	111 ^r	73 ^r	80 ^r	81 ^r
Wheat flour.....	83	86	91	87
Refined sugar deliveries.....	73	82	78	89 ^p
Tobacco products.....	82	80	86	85
Miscellaneous				
Cement.....	41	39	43	49
Newsprint paper.....	69	73	72	74 ^p
Machine tools.....	46	73	83 ^r	83

^p Preliminary ^r Revised * For quarter ended

[▲] These indexes measure the changes in production in comparison with the average seasonal movement of past years. The low September index and the large rise in the indexes for October and November therefore reflect the early introduction of new models

Foreign Trade

Merchandise exports from this country showed a large increase from October to November which is contrary to the usual seasonal movement, while imports declined about in accord with the seasonal tendency. Exports were valued at \$269,000,000, an increase of 38 per cent over November 1934, while imports at \$169,000,000 were 12 per cent larger. Both exports and imports continued to be larger than in the corresponding month of any year since 1930. For the first eleven months of 1935 exports showed an increase of 5 per cent and imports an increase of 22 per cent over 1934.



Value and Quantity of Exports of Raw Cotton from the United States. Current Year Compared with Last Year and with 1926-29 Average

Among the November exports, shipments of automobiles, raw cotton, and several other important products showed large increases, both as compared with the previous month and with a year ago. Exports of passenger cars, after slackness in recent months, responding to the early introduction of new models were nearly two and a half times the number shipped in November 1934. Exports of raw cotton, as the accompanying diagram indicates, were about twice as large in volume and value as in November 1934. The volume of cotton exported in November compared favorably with the average amount shipped in the corresponding month of 1926-28, but the value remained about 40 per cent less, due to the lower price of cotton. Cotton exports to Germany, France, and the United Kingdom were several times as large as in November 1934; in fact all of the major cotton consuming countries except Italy, Canada, and the Far Eastern countries have recently been taking larger amounts of American cotton than in 1934, which may be attributed in part to a reduction in the price differential between American and other cottons.

Imports of unmanufactured wool during November continued to show an exceptional increase over a year ago, both in quantity and value. There were also moderate gains in receipts of burlap, newsprint paper, tin, and copper. On the other hand, imports of sugar and rubber were substantially reduced in quantity and value from those of November 1934. Silk imports were somewhat smaller in volume, but due to an increase in price, were 26 per cent larger in value than a year ago.

Indexes of Business Activity

Generally favorable retail trade in December was indicated by reports issued during the month. Sales in the Metropolitan area of New York in the period up to Christmas showed slightly more than the usual seasonal increase from November to December, and in other parts of the country Christmas trade is reported to have shown considerably larger gains over last year than New York and vicinity. Loadings of railway freight cars during the first three weeks of the month receded less than in most recent years, both in the case of merchandise and miscellaneous freight and in bulk shipments.

In November the volume of business activity in general compared favorably with the preceding month. The volume of check transactions and the amount of advertising rose after allowance for seasonal changes, and greater than seasonal gains occurred in sales of department stores and of chain store systems outside of the grocery field. Reflecting the early showing of new models, registrations of new passenger cars rose sharply at a time when there is ordinarily a decline, and attained a level approximately as high as that reached in any previous November. Shipments of merchandise and miscellaneous freight over the railroads declined less than in many other years, but total car loadings of bulk freight, such as coal, coke, ore, grain, livestock, and lumber, decreased more than usually.

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

	1934	1935		
	Nov.	Sept.	Oct.	Nov.
<i>Primary Distribution</i>				
Car loadings, merchandise and misc.....	56	59	61	63
Car loadings, other.....	54	60	63	58
Exports.....	47	53	51	64 ^p
Imports.....	64	68	72	71 ^p
<i>Distribution to Consumer</i>				
Department store sales, U. S.....	70	78	73	76 ^p
Department store sales, 2nd Dist.....	71	74	70	72
Chain grocery sales.....	63	61	59	59
Other chain store sales.....	79	83	79	86
Mail order house sales.....	75	76	80	80
Advertising.....	60	58	60	64
New passenger car registrations.....	49	48	49	92 ^p
Gasoline consumption.....	89 ^r	80 ^r	92 ^r	
<i>General Business Activity</i>				
Bank debits, outside New York City.....	61 ^r	65	64	70 ^p
Bank debits, New York City.....	38	45	42	44
Velocity of demand deposits, outside New York City.....	64	68 ^p	65 ^p	72 ^p
Velocity of demand deposits, New York City.....	40	44 ^p	42 ^p	43 ^p
New life insurance sales.....	60	57	60	58
Factory employment, United States.....	78	83	85	86 ^p
Business failures.....	43	41	46	42
Building contracts.....	26	29	33	40 ^p
New corporations formed in N. Y. State.....	60	63	58	56
General price level*.....	140	147	148	149 ^p
Composite index of wages*.....	181	188	189	190 ^p
Cost of living*.....	139	142 ^r	141 ^r	141

^p Preliminary ^r Revised * 1913 average=100

Building

The total of building and engineering contracts in the Metropolitan New York and up-State New York area in November was approximately 16 per cent greater than in October due to gains in nonresidential types of building. The value of contracts for residential building, although somewhat lower than in October, was nearly double that of November 1934. For the first eleven months of 1935 the value of all contracts was more than 25 per cent higher than in the similar period of 1934; gains were registered in each of the major classifications—residential, public works and utilities, and other nonresidential building.

In the 37 States covered by the F. W. Dodge Corporation report total contracts were approximately 6 per cent lower in November than in October, the decrease being due largely to a decline of somewhat more than seasonal proportions in contracts for residential building. Nonresidential contracts other than public works and utilities, on the other hand, showed an unseasonal advance of 15 per cent over October, due to increasing

Federal expenditures on construction projects. Publicly financed construction covering all types of projects increased over the preceding month for the sixth consecutive time. Contracts for publicly financed educational and hospital buildings in particular showed marked increases during November. After adjustment of the data for the usual seasonal changes, this bank's index of total construction contracts advanced 7 points in November to 40 per cent of the long term trend. For the first eleven months of 1935, the total of construction contracts was 9 per cent larger than a year ago. Residential building showed an increase of 85 per cent and nonresidential construction, other than public works and utilities, a rise of 7 per cent, while public works and utility projects showed a reduction of 15 per cent for the period as a whole.

Data for the first half of December indicate sharp increases in all major classifications of building and engineering contracts. As in November, the most pronounced gain was registered in nonresidential building which reflected the final awards on projects financed by Federal funds under the 1935 allotment before the deadline on December 15.

Commodity Prices

Reductions in wholesale prices of a number of the principal commodities occurred during December, and the index of 15 raw products compiled by Moody's Investors' Service declined to a level about 5 per cent below the high point reached in October. Despite this decline, however, the index remained 6 per cent higher than at the end of 1934.

The most pronounced price movement during the month was the sharp break in silver prices, which began on December 9. As a result of substantial declines through the 24th of the month, the spot price at New York reached 49¾ cents a fine ounce which is 15⅝ cents below the end of November price, and is the lowest price since September 1934. The New York market followed other principal silver markets, where large declines also occurred. At Montreal the March contract showed a net decline of 15.75 cents for the month, and at London the spot quotation receded by the equivalent of 14.87 cents to 49.92 cents a fine ounce. Among prices of other actively traded metals, losses were shown in tin and copper futures, while scrap steel at Pittsburgh rose 50 cents to \$14.25 a ton, the highest since April 1934.

Wheat prices in the United States, in response to changes in the Liverpool market, moved lower in early December, canceling the gains shown in the latter part of November, but following the announcement of the Argentine Government establishing a minimum price on purchases of new crop wheat made by its National Grain Board, and an advance of nearly 20 cents a bushel in the Buenos Aires market on December 13, wheat futures at Chicago advanced the limit of 5 cents allowed for one day's trading and cash wheat at Minneapolis rose more than 4½ cents to \$1.30 5/16 a bushel. During the remainder of the month wheat prices were rather steady, and Minneapolis cash wheat closed December at \$1.31 5/8 a bushel, little changed for the month as a whole.

The pronounced decline which occurred in the price of corn during previous months was arrested in

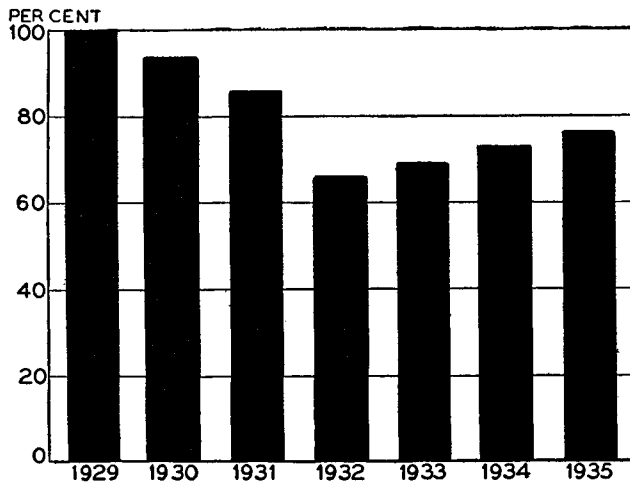
December, apparently as a result of the lateness of the crop and unfavorable harvesting weather conditions, and spot corn showed little net change during the month. Cotton prices showed some net decline during December, despite the December Government crop estimate which indicated a crop 407,000 bales below the November estimate.

Moderate losses were shown also in the prices of sugar and silk. Wool prices, on the other hand, rose further during the month to the highest level since May 1934, and the average price of rayon showed a 6 per cent gain.

Department Store Trade

For the entire Christmas shopping period, December 1-24 inclusive, total sales of the reporting department stores in the Metropolitan area of New York were 2.8 per cent higher than in the corresponding period of 1934, whereas in the first 12 shopping days sales were 2.8 per cent lower than last year, due in part to the fact that in the early part of December last year heavy buying occurred in anticipation of the sales tax in New York City. On the basis of the figures for the first 24 days of the month, it appears that December sales in the Second Federal Reserve District have shown a little more than the usual seasonal increase over November, and, as the accompanying diagram indicates, the dollar volume of sales was the largest for any December since 1931. Total sales for the year 1935 appear to have been approximately 1½ per cent higher than for 1934, as compared with an increase of 6.4 per cent between 1933 and 1934.

November sales of the reporting department stores in this district were 6.6 per cent higher than last year, following a slight decrease in October. The Buffalo department stores reported a sizable increase in sales over last year, the largest since March 1934, and the Bridgeport and Hudson River Valley District stores recorded their largest gains in sales since June 1934. Sales of the reporting stores in Northern New Jersey, Northern New York State, and Westchester and Stamford also made the most favorable comparisons with a year ago in several months, and New York, Rochester, Syracuse, Southern New York State, and Capital District depart-



Department Store Sales in the Second Federal Reserve District (December 1929 = 100 per cent; December 1935 partly estimated)

ment stores reported a moderately larger volume of sales than a year previous. Sales of the leading apparel stores in this district were 18.8 per cent higher than last year, one of the largest increases ever reported.

Department store stocks of merchandise on hand, at retail valuation, were slightly lower than in the previous year, following a small increase in October. The rate of collections continued to average higher this year than last both in department and apparel stores.

Locality	Percentage change November 1935 compared with November 1934		Per cent of accounts outstanding October 31 collected in November	
	Net sales	Stock on hand end of month	1934	1935
New York.....	+ 4.9	-1.2	50.6	53.7
Buffalo.....	+22.7	+4.6	47.9	51.6
Rochester.....	+ 9.6	+1.2	47.6	48.2
Syracuse.....	+16.6	-5.9	38.7	44.2
Northern New Jersey.....	+ 8.4	+3.0	43.2	44.8
Bridgeport.....	+12.8	+1.5	37.9	42.4
Elsewhere.....	+ 9.4	-5.0	29.4	34.4
Northern New York State.....	+ 3.7	.....	.....	.....
Southern New York State.....	+ 5.0	.....	.....	.....
Hudson River Valley District.....	+ 7.7	.....	.....	.....
Capital District.....	+ 6.7	.....	.....	.....
Westchester and Stamford.....	+22.9	.....	.....	.....
All department stores.....	+ 6.6	-0.6	46.6	49.6
Apparel stores.....	+18.8	+4.8	46.4	49.0

Wholesale Trade

In November total sales of the reporting wholesale firms in this district averaged 5 per cent higher than in 1934, a smaller increase than in the preceding two months. Individual lines reporting smaller gains than in September and October included groceries, cotton goods, stationery, and jewelry; also men's clothing, drugs, paper, and rayon and silk goods, sales of which showed the smallest advances in 5 or 6 months. Sales of the shoe firms were somewhat higher than last year following a large increase in October, diamond sales were again well above last year's volume, and the sales of the reporting hardware concerns were slightly higher than last year, as compared with a small decrease in October.

Commodity	Percentage change November 1935 compared with November 1934		Per cent of accounts outstanding October 31 collected in November	
	Net sales	Stock end of month	1934	1935
Groceries.....	+ 0.6	-15.9	89.3	87.2
Men's clothing.....	+ 8.0	.....	36.8	36.1
Cotton goods.....	+ 8.1	.....	41.1	36.2
Rayon and silk goods.....	+ 0.7*	+12.3*	67.9	61.8
Shoes.....	+ 6.8	.....	40.1	34.4
Drugs.....	+ 6.0	- 5.0	33.5	30.5
Hardware.....	+ 1.0	-11.2	47.3	47.4
Stationery.....	+ 6.1	.....	48.0	53.3
Paper.....	+ 3.4	.....	47.0	47.1
Diamonds.....	+19.7	+18.5	18.5	17.3
Jewelry.....	+ 8.0	- 9.4		
Weighted average.....	+ 5.0	.....	55.2	52.9

*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, JANUARY 1, 1936

Business Conditions in the United States

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

INDUSTRIAL production and employment, which usually decline at this season, showed little change from October to November. Distribution of commodities to consumers increased more than seasonally.

PRODUCTION AND EMPLOYMENT

The Board's seasonally adjusted index of industrial production advanced from 95 per cent of the 1923-1925 average in October to 97 per cent in November. Output of industries producing durable goods continued to increase substantially in November, while activity in most other industries declined somewhat. Output of steel increased further during November to a higher rate than in any previous month this year and this high level was maintained during the first three weeks of December. Automobile production in November continued the sharp increase which began after the change to new models in September. Activity at silk mills and at woolen mills declined.

Factory employment and payrolls, which usually decline from the middle of October to the middle of November, showed little change for that period this year. Increases in employment were reported for the automobile, iron and steel, machinery, railroad car, and cotton textile industries and at railroad repair shops. There were larger than seasonal declines at sawmills, shoe factories, silk and rayon mills, and establishments producing wearing apparel.

Value of construction contracts awarded, as reported by the F. W. Dodge Corporation, continued to increase in November and the first half of December. There was a decline, largely seasonal, in residential building, while other types of construction showed an increase.

AGRICULTURE

Crop production in 1935, according to final estimates by the Department of Agriculture, showed an increase of about 20 per cent in volume over the drought year of 1934, and the farm value of 64 crops amounted to \$5,120,000,000 compared with \$4,780,000,000 last season. The cotton crop, which has been reduced in recent months by bad weather, is now estimated at 10,734,000 bales compared with the exceptionally small output of 9,636,000 bales in 1934. Cash farm income from marketings of crops and livestock and from Government rental and benefit payments is estimated at about \$6,800,000,000 for the calendar year 1935, as compared with \$6,387,000,000 last year.

DISTRIBUTION

Freight car loadings decreased by less than the usual seasonal amount during November, reflecting principally a smaller decline in shipments of miscellaneous freight than is customary at this time of year. Value of department store sales, on a daily average basis, increased from October to November.

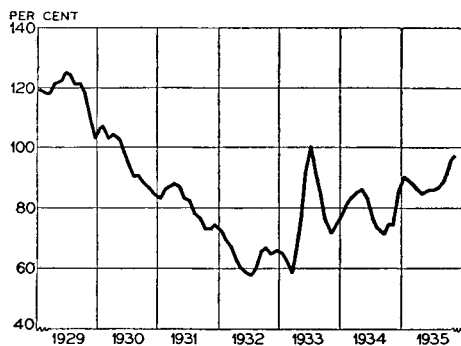
COMMODITY PRICES

The general level of wholesale commodity prices, after a decline during October, increased during November and showed little change during the first two weeks of December.

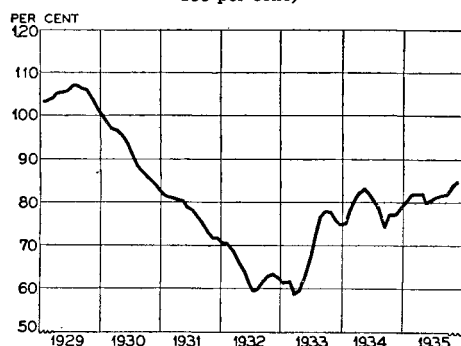
BANK CREDIT

Excess reserves of member banks, which had increased to a new high level of \$3,310,000,000 on December 11, largely as the result of continued gold imports, declined considerably during the week ended December 18, as a consequence of seasonal demands for currency and a large increase in Treasury balances with the Federal Reserve Banks, in connection with mid-December fiscal operations.

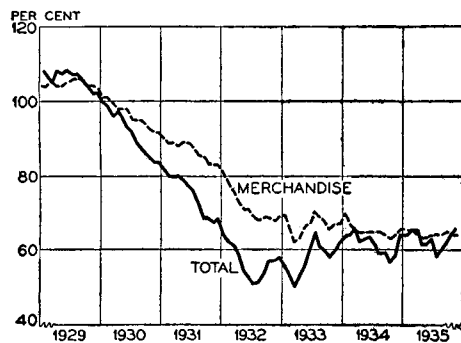
Changes in condition of reporting banks in 101 leading cities during the four weeks ended December 18 reflected principally the influence of new Government financing. These banks showed increases of \$310,000,000 in holdings of United States Government securities, of \$110,000,000 in loans to brokers and dealers in securities, and of \$200,000,000 in United States Government deposits. Adjusted demand deposits showed a further growth of \$270,000,000 in the three weeks ended December 11 and declined by \$250,000,000 in the following week, as a result of withdrawals for holiday currency demands, income tax payments, and the purchase of new Government securities.



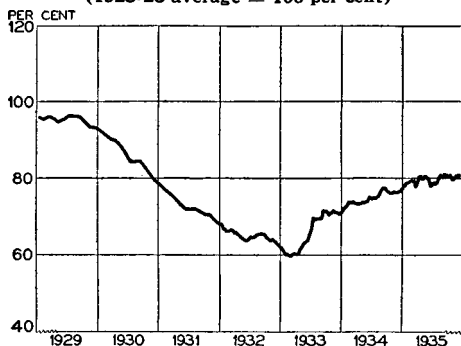
Index Number of Production of Manufactures and Minerals Combined, Adjusted for Seasonal Variation (1923-25 average = 100 per cent)



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



Indexes of Freight Car Loadings, Daily Average Figures Adjusted for Seasonal Variation (1923-25 average = 100 per cent)



Wholesale Price Index of United States Bureau of Labor Statistics (1926 average = 100 per cent)