

MONTHLY REVIEW

of Credit and Business Conditions

Second Federal Reserve District

Federal Reserve Agent

Federal Reserve Bank, New York

February 1, 1936

Money Market in January

A renewed accumulation of funds in the money market has occurred during the past month, due largely to the seasonal return flow of currency from circulation since Christmas. Another influence of less importance has been some further increase in the monetary gold stock, though the rate of increase has been much slower than in a number of preceding months. Still a third influence has been the disbursement by the Treasury of a part of the funds accumulated in Government deposits with the Reserve Banks in December. In New York there was also a substantial inflow of funds from other districts.

Member bank excess reserves rose to \$1,400,000,000 in New York City in January, as compared with about \$1,150,000,000 in the third week of December and a high figure of about \$1,500,000,000 at the middle of December. For the country as a whole, excess reserves rose to slightly under \$3,100,000,000, as compared with \$2,700,000,000 in the third week of December, and a maximum of \$3,300,000,000 at the middle of December. Most of the decrease in reserves in December was caused by increased Treasury balances in the Reserve Banks due to heavy cash payments for the new issues sold on December 16. Some of these funds have been disbursed subsequently, but a considerable part of them have not reentered excess reserves, as the Treasury has maintained its balances at close to \$500,000,000, drawing upon its balances in other depository banks when necessary.

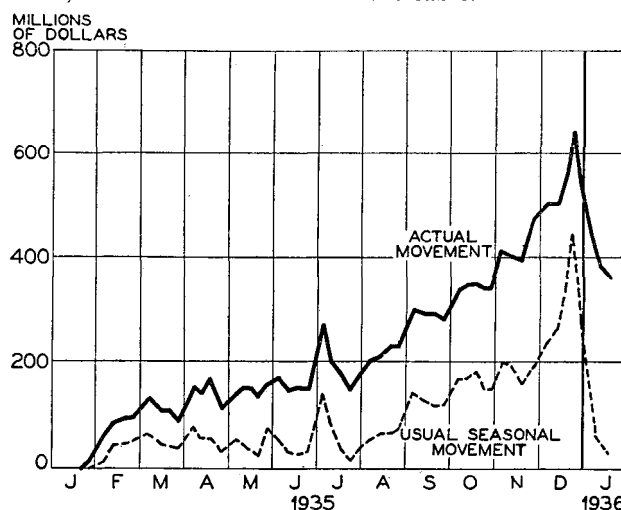
Another factor which has prevented as large an increase in excess bank reserves as might otherwise have been anticipated is the rather small amount of the seasonal return flow of currency to the banks, in comparison with the usual seasonal movement. The accompanying diagram compares the increase in the volume of currency outstanding up to the Christmas high point last year, and the subsequent reduction, with the usual seasonal movement as computed by the research staff of the Board of Governors of the Federal Reserve System. As this diagram indicates, seasonal expansion of currency in the spring and autumn of 1935 was fully up to the usual seasonal movement, but in periods of seasonal contraction in circulation there has not been the usual return flow. The net result has been that the volume of currency in circulation has shown an increase during the past year of approximately \$350,000,000. Data on the amount of currency of different denominations outstand-

ing indicate a fairly uniform increase of around 6 to 9 per cent in most denominations, and these figures taken together with data for business activity, suggest that the increase has probably been largely due to the effects of business recovery on payroll and other expenditures that involve the use of currency.

In addition to increased currency circulation, member bank reserve requirements have increased by more than \$400,000,000 during the past year, due to the continued increase in the volume of bank deposits. This increase in the demand for currency and other reserve funds has tended to be obscured by the extraordinary rise in the supply of funds that has been reflected in the figures on excess bank reserves.

MONEY RATES

The chief effect of the huge supply of funds in the money market continues to appear in yields on long term securities rather than in short term money rates, which were already at extremely low levels. As the following table indicates, money rates generally remained practically unchanged during the past month but as compared with a year ago short term rates are only slightly lower while average yields on medium and long term Government securities show noticeable reductions. The same is true of yields on high grade corporation bonds, which are not shown in the table.



Actual Movement of Money in Circulation During Past Year, Compared with Usual Seasonal Movement (Latest data are for January 22, 1936)

Money Rates at New York

	Jan. 31, 1935	Dec. 31, 1935	Jan. 30, 1936
Stock Exchange call loans.....	$\frac{1}{8}$	$\frac{3}{4}$	$\frac{3}{4}$
Stock Exchange 90 day loans.....	$\frac{3}{4}$ -1	*1	*1
Prime commercial paper—4 to 6 months	$\frac{3}{4}$	$\frac{3}{4}$	$\frac{3}{4}$
Bills—90 day unindorsed.....	$\frac{1}{8}$	$\frac{1}{8}$	$\frac{1}{8}$
Customers' rates on commercial loans			
(Average rate of leading banks at			
middle of month).....	1.75	1.75	1.67
Treasury securities:			
Maturing June (yield).....	[no yield	no yield	no yield
Maturing April 1937 (yield).....	....	0.04	no yield
Average yield on Treasury notes (1-5			
years).....	0.91	0.73	0.71
Average yield on Treasury bonds (more			
than 5 years to earliest call date)....	2.67	2.50	2.47
Average rate on latest Treasury bill sales			
273-274 day issue.....	....	0.08	0.10
Federal Reserve Bank of New York			
rediscount rate.....	$1\frac{1}{2}$	$1\frac{1}{2}$	$1\frac{1}{2}$
Federal Reserve Bank of New York			
buying rate for 90 day indorsed bills	$\frac{1}{8}$	$\frac{1}{8}$	$\frac{1}{8}$

* Nominal

MEMBER BANK CREDIT

Reports from member banks in New York and other principal cities have shown some reduction in the volume of loans during the past month, but less than is usual for the time of year. Loans on securities in New York and other localities after a moderate increase over the year-end have declined subsequently, and on January 22 showed a small net reduction from a month ago, but were slightly higher than a year ago. The volume of other loans has shown some further seasonal contraction in January, especially in New York City banks, but the reduction was not large for the time of year, and the volume of loans outstanding in the third week of the month was slightly larger than a year previous. The total volume of loans during the past month has shown a slight increase over a year ago for the first time since 1930, with the exception of a few weeks in the spring of 1934 when small increases were shown in comparison with the period during and immediately following the bank holiday.

After some distribution during the latter half of December of new Government securities purchased on the December tax date, holdings of Government securities by reporting member banks in New York City and in other parts of the country have increased substantially, and on January 22 were slightly above the previous high point on December 18. Holdings of Government guaranteed securities also increased moderately to a new high level, and holdings of other securities increased somewhat.

GOVERNMENT SECURITIES

The prices of United States Government securities advanced somewhat further during the first half of January, and the average yield on Treasury bonds maturing or callable in five years or more receded to 2.44 per cent and the average yield on Treasury notes of 1 to 5 year maturity reached 0.67 per cent. The strength in the Government bond market during this period accompanied a strong rise in corporation bond prices, and occurred in the face of uncertainties concerning the Federal budget and the amounts which the Treasury will have to borrow. During the second half of the month, there was a temporary recession in Government security prices, but as a result of a subsequent recovery the average yield for the bonds closed the month at 2.47 per cent and the average yield on the

notes reached 0.71 per cent, or slightly below the levels that prevailed at the close of December.

Treasury issues during January totaled \$200,000,000, composed of four \$50,000,000 weekly bill flotations which replaced maturities of like amount. The rate on the first January bill issue was slightly higher at 0.11 per cent, but subsequent issues were placed at 0.09 and 0.10 per cent.

BILLS AND COMMERCIAL PAPER

During January, the activity of the bill market again was confined to the same narrow limits that have characterized trading for a number of months past. Dealers' buying and selling rates held to the levels previously current, but the New York banks' call loan rate to dealers against bills and Government securities was increased from $\frac{1}{4}$ per cent to $\frac{1}{2}$ per cent. At the end of December the volume of bills outstanding totaled \$397,000,000, an advance of \$10,000,000 over November which reflected an increase in export bills.

The commercial paper market also remained inactive in January. Small amounts of new paper of commercial and industrial concerns continued to be acquired by the commercial paper houses, but this supply remained far below the volume for which bank investment inquiry was made. Rates likewise were unchanged. The volume of outstanding paper reported by commercial paper houses at the end of December 1935 amounted to \$171,500,000, a figure about 4 per cent below the November total, but 3 per cent higher than in December 1934.

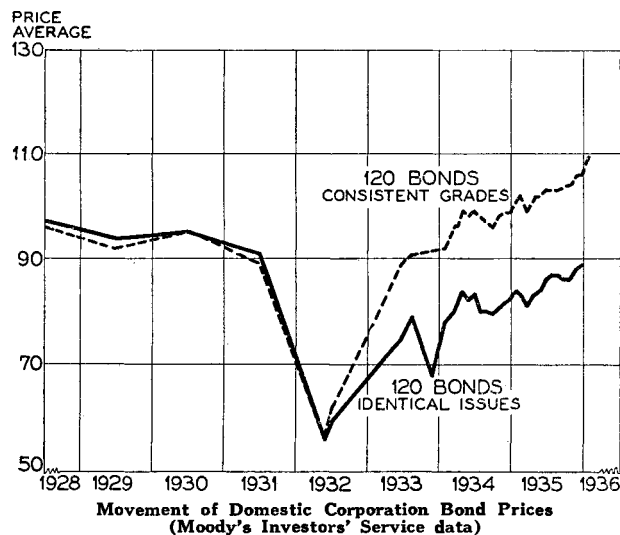
Increase in Margin Requirements

On January 24 the Board of Governors of the Federal Reserve System announced an amendment to Regulation T, effective February 1, which provides for a reduction in the maximum amount that may be loaned by members of national securities exchanges, on securities registered on any such exchanges, from 55 per cent to 45 per cent of the current market value in those cases in which this amount is greater than the lowest market price of the security since July 1, 1933.

Security Markets

Domestic corporation bonds continued to advance throughout January and composite price averages registered net increases of 1 to 3 points, depending upon the type of issues included. All grades and classes of bonds participated in the movement, but the extent of the rise was in inverse relationship to the grade of the bond, medium grade issues, especially the railroad group, showing considerably larger advances than high grade investment issues.

While a number of the commonly used bond price averages and indexes have recently been rising to new high levels for a number of years past, it would appear that such comparisons in some cases tend to exaggerate the recovery in the bond market as a whole, which, nevertheless, has been very substantial. This overstatement has come about as a result of substitutions of issues in the averages with a view toward maintaining the consistency of the grades of the issues included. Many individual issues show considerably less recovery than do the published bond averages. This is illustrated in



the accompanying diagram, which shows movements in the average price of 120 bonds of the same grades (30 bonds of each of the four highest grades of bonds) and in the average price of 120 identical bonds which in 1928 represented the same distribution by grades, but a number of which have subsequently had their ratings lowered. This diagram indicates that the average price of bonds of consistent grade at the end of 1935 was some 10 points above the 1928 level, while the average price of the identical bonds remained about 8 points below the 1928 level. Of the identical bonds only those rated Aaa in 1928 have risen above the 1928 level, while in the case of the groups of bonds that have been kept up to given ratings by substitutions, the average price of bonds of each of the four highest grades has now exceeded the 1928 level.

Stock prices also followed a generally upward course in January, although there was considerable irregularity throughout the period and one moderate reaction occurred around the 20th of the month. Trading on the New York Stock Exchange increased in volume to an average daily turnover of about 2,800,000 shares, as compared with 2,000,000 shares in December. Percentage-wise, railroad stocks with a rise of about 13 per cent showed the largest advance during the month, reaching the highest level since April 1934. Public utility stocks rose about 8 per cent to the highest quotations since August 1933, while industrials advanced only about 3 per cent but reached the highest levels since March 1931. Among the industrials, there was considerable diversity of movement between groups of companies, a considerable rise occurring, for example, in oil, copper, and miscellaneous mining company shares, while there were recessions in several other groups.

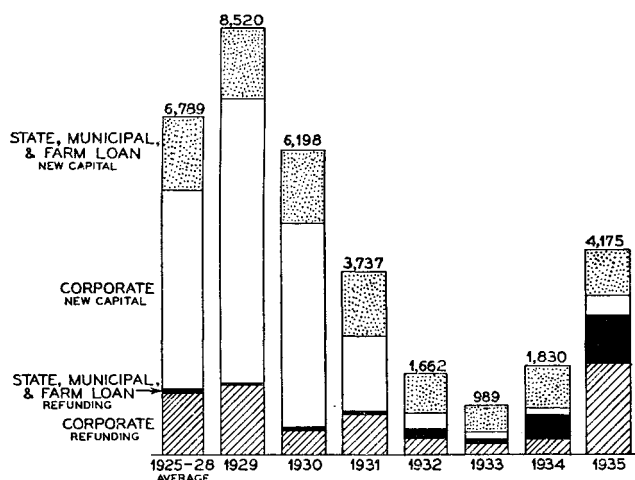
New Financing

The market for new securities has been rather active since the turn of the year, and in this period the flotations have been more largely in the corporate field than in the State and municipal field. Domestic corporate issues during January totaled approximately \$255,000,000, including \$147,000,000 of industrial company

financing, \$80,000,000 of railroad issues, and \$28,000,000 of public utility securities. Until a few months ago new corporation financing represented largely refunding issues by the public utilities. January industrial issues included \$45,000,000 Republic Steel Corporation $4\frac{1}{2}$ per cent bonds at par, \$35,000,000 Wheeling Steel Corporation $4\frac{1}{2}$ per cent bonds priced to yield 4.41 per cent, and \$35,000,000 of Inland Steel Company $3\frac{3}{4}$ per cent bonds yielding 3.66 per cent; while the major portions of these loans were for refunding of outstanding securities or to repay bank loans, small portions represented new capital which will go into additions and betterments. In the railroad category the principal financing was \$70,800,000 of issues of the Pennsylvania Railroad Company, which included a block of \$30,800,000 of securities acquired by the offering syndicate from the Reconstruction Finance Corporation. These bonds, carrying 4 per cent coupons, had originally been issued by the railroad as collateral for a construction loan which had been made by the Public Works Administration; when offered for public subscription they were priced to yield from 0.75 to 3.88 per cent, depending upon the maturities, which run from 1937 to 1964. The remainder of the Pennsylvania Railroad Company financing was \$40,000,000 of long term $3\frac{3}{4}$ per cent bonds, yielding 3.84 per cent, which were put out for the refunding of higher coupon obligations. Another railroad issue—\$8,718,500 of Maine Central Railroad Company bonds—was offered by the selling syndicate on a 4 per cent basis, after the Reconstruction Finance Corporation had signified its willingness to underwrite the issue at this rate. Public utility financing was represented chiefly by a \$27,000,000 refunding issue of West Penn Power Company $3\frac{1}{2}$ per cent bonds priced to yield 3.34 per cent.

The principal municipal issue publicly offered in January was \$25,000,000 of New York City corporate stock priced to yield 3.42 per cent. There was an offering of about \$37,000,000 of Federal Intermediate Credit Bank debenture issues, the greater part of which was to cover maturities of about \$33,000,000. In addition, the State of New York sold \$75,000,000 of short term notes yielding 0.25 to 0.30 per cent to a group of financial institutions, and no general reoffering of these notes was made. In the foreign field a refunding issue of \$48,000,000 Dominion of Canada long term bonds was sold at a price to yield 3.50 per cent.

A comparison of new domestic security flotations for the year 1935 with the volume in other years since 1925 is shown in the following diagram. The 1935 total of nearly \$4,200,000,000 exceeded that of any year since 1930, due largely to heavy refunding operations. Corporation refunding last year alone aggregated slightly more than all issues floated in 1934, and in addition there was a considerable increase in State, municipal, and farm loan refunding issues other than securities guaranteed by the United States Government. As the diagram indicates, however, new capital issues by corporations, while expanding to \$400,000,000 in 1935, remained small in comparison with the years prior to 1932, and State, municipal, and farm loan issues for new capital purposes were below the totals for 1931 and preceding years. An analysis of the uses to



Offerings of Domestic Securities in 1935 Compared with Preceding Years (Commercial and Financial Chronicle data—investment trust issues excluded; in millions of dollars)

which the issuers intended to put the net proceeds of the new securities registered with the Securities and Exchange Commission from January 1 to December 31, 1935 indicates that 73.3 per cent was for the refunding or retirement of outstanding securities and 7.5 per cent for repayment of bank loans and other debt; of the remaining proceeds, 11.9 per cent was for the purchase of securities for investment, 4.7 per cent to increase working capital, and 2.3 per cent to purchase real estate, plant and equipment, and other assets. These figures do not include railroad or State and municipal issues, which are not registered with the Securities and Exchange Commission. They represent intentions to issue securities, and not actual flotations during the year.

Foreign Exchanges

The pound sterling, after fluctuating within a narrow range during the final quarter of 1935, showed a comparatively sharp advance during January, rising from \$4.93 at the beginning of the month to a peak of \$5.02½ during the course of trading on January 24, the largest movement for a single month since May 1935. The strength of the pound against the dollar was brought about in part by a moderate movement of short term balances from New York to London, owing to a subsidence of fears that the hostilities in Ethiopia would lead to a European war and to a variety of rumors regarding the future gold, silver, and budgetary policies of the United States Government.

The rates for the gold bloc currencies were subject to divergent influences during January. The difficult French fiscal situation, together with the reconvening of Parliament and the resignation of the Laval Cabinet, led to a renewed outflow of funds from France, but, for the reasons mentioned above, these funds were transferred largely to London rather than to New York. The franc quotation in New York showed great irregularity, the rate being chiefly affected at times by political developments in France, and at other times by the wave of rumors regarding American monetary and fiscal policies. During the early part of the month and again

on January 20 and 21 French exchange was quoted at levels only moderately above the gold shipping point from Paris to New York, estimated at about \$0.0659. On January 11, however, the rate touched a high of \$0.0665, and following several days of renewed weakness, again advanced abruptly to \$0.0668¼ during the course of trading on January 27, a level only slightly below the estimated gold export point to France. The movements of the other gold exchanges conformed broadly to those of the franc, although their range of fluctuation was somewhat smaller. The guilder actually touched the gold shipping point to Holland for a brief period on January 24, but the volume of transactions at this level was not sufficient to make it profitable for banks to engage gold in this market for shipment to Holland. This was the first time since September 1934 that any gold bloc exchange reached the gold export point at New York.

Closing Cable Rate at New York

Exchange on	Jan. 31, 1935	Dec. 31, 1935	Jan. 30, 1936
Belgium.....	\$.2322	\$.1689	\$.1708
Denmark.....	.2175	.2203	.2236
England.....	4.8713	4.9325	5.0063
France.....	.06565	.06629	.06681
Germany.....	.4000	.4026	.4075
Holland.....	.6734	.6800	.6867
Italy.....	.0848	.0803	.0850
Norway.....	.2448	.2479	.2515
Spain.....	.1360	.1375	.1384
Sweden.....	.2512	.2543	.2581
Switzerland.....	.3223	.3256	.3293
Canada.....	.9988	.9947	1.0019
Argentina.....	.3248	.3288	.3338
Brazil.....	.0835	.0860	.0859
Uruguay.....	.8000	.8050	.8000
Japan.....	.2839	.2882	.2921
India.....	.3635	.3728	.3780
Shanghai.....	.3556	.2938	.3000

Gold Movement

During the first two weeks of January gold continued to arrive in New York from Europe, but in much smaller volume than in preceding months. Following the receipt of \$5,800,000 from England and \$3,400,000 from France, the movement which began last September came to a close. In addition to these imports, \$11,400,000 of gold was received at New York from India during the course of the month, and \$10,200,000 came from Canada, \$600,000 from Ecuador, and \$500,000 from Russia. On the Pacific Coast, \$4,800,000 arrived from Australia and New Zealand and \$2,000,000 from China.

Receipts by the mints and assay offices of domestic newly mined and scrap gold further increased the monetary gold stock of the country, which showed a total gain of approximately \$60,000,000 for January. Gold amounting to \$2,000,000 was imported from South American countries during the month but was immediately placed under earmark at the Federal Reserve Bank of New York and therefore had no effect on the gold stock.

Central Bank Rate Changes

Following a reduction from 6 to 5 per cent effective January 2, the discount rate of the Bank of France was lowered to 4 per cent, effective January 10. As of January 16 the Netherlands Bank reduced its discount rate from 3½ to 3 per cent.

Commodity Prices

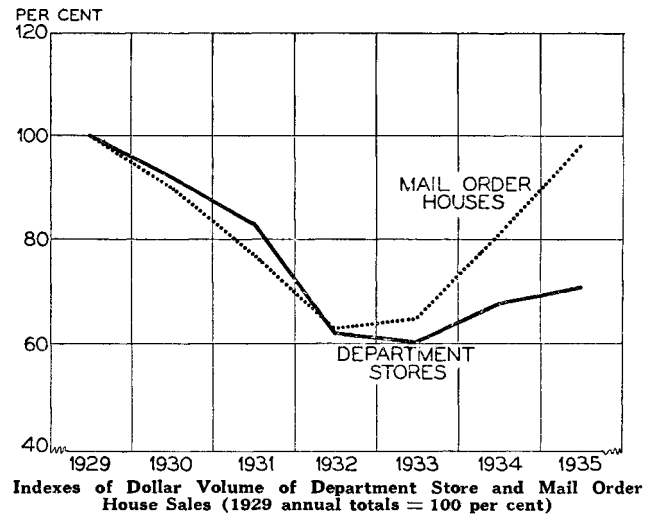
Rather diverse movements occurred in the prices of the principal basic commodities during January, but at the end of the month the general average of these prices, as measured by Moody's Investors' Service index, stood about 1½ per cent higher than at the end of December. Following the announcement of the United States Supreme Court decision declaring the Agricultural Adjustment Act unconstitutional, cotton prices showed moderate losses, but subsequently quotations on cotton futures recovered to about the level prevailing at the end of December; the spot price of cotton, however, showed no recovery, closing the month 25 points below the end of December figure. Among other commodities affected directly or indirectly by the Supreme Court's decision, sugar declined during early January, but subsequently advanced to close the month higher than in the latter part of December. The average price of hogs rose 60 cents to \$9.88 a hundredweight, and grain prices recovered irregularly during the second half of January, after some initial decline.

The most pronounced movement among the other important basic commodities occurred in the price of rubber, which advanced more than 1½ cents a pound during January to 15½ cents, the highest since September 1934. Gains for the month occurred also in the prices of wool, hides, and scrap steel at Pittsburgh. A rather pronounced recession in raw silk prices reduced the quotation to \$1.90½ a pound, 16 cents below the end of December, and 45 cents below the high reached last October. Rayon prices likewise declined during the month. Spot silver at New York declined 5 cents to 44¾ cents a fine ounce, the lowest level in about a year and a half, and the quotation at the end of the month was at about the same level as prices in the Montreal and London markets. The price of tin continued to move lower during January, while other nonferrous metal prices again showed little net change.

Indexes of Business Activity

During the three weeks of January, freight car loadings of merchandise and miscellaneous freight receded somewhat, as compared with little usual seasonal change, but the movement of bulk commodities increased more than seasonally, especially large gains occurring in railroad shipments of coal, ore, and grains. Department store sales in the New York Metropolitan area during the first half of the month showed about the usual seasonal drop from December.

In December an increase of more than the usual proportions occurred in the distribution of goods and general business activity. Among the indicators of retail trade, department store sales both in this district and for the country as a whole advanced by more than the average seasonal amount, and mail order house sales and chain store trade showed approximately the usual seasonal changes. Increases after seasonal adjustment occurred also in merchandise and miscellaneous freight car loadings, and in bulk freight shipments, advertising, and the volume of check transactions. Registrations of new passenger automobiles in December compared favorably with the previous month according to preliminary reports.



The extent of the recovery in the dollar volume of two types of retail trade from the low points of 1932-1933 is indicated in the accompanying diagram. The decline in department store sales and in mail order house sales was about the same between 1929 and 1932 but in 1933 sales of department stores, which are situated principally in urban localities, receded further while mail order house sales, which reflect chiefly conditions in rural areas, showed some improvement. As farm crops were marketed at higher prices and farmers' incomes were augmented by rental and benefit payments, the rate of increase in mail order house sales was accelerated in 1934 and 1935 so that by 1935 mail order house sales were 56 per cent higher than in 1932 and within 2 per cent of the 1929 peak. Department store sales also rose in 1934 and 1935, but the gain from 1933 to 1935 amounted to only 18 per cent and sales remained about 29 per cent less than in 1929.

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

	1934	1935		
	Dec.	Oct.	Nov.	Dec.
Primary Distribution				
Car loadings, merchandise and misc. r.	61r	63r	65r	67r
Car loadings, other r.	61r	63r	60r	66r
Exports	44	51	63	58p
Imports	60	72	71	79p
Distribution to Consumer				
Department stores sales, U. S.	76	73	75	79
Department store sales, 2nd Dist.	73	70	72	74
Chain grocery sales	63	59	59	60
Other chain store sales	84	79	86	85
Mail order house sales	74	80	80	79
Advertising	60	60	64	69
New passenger car registrations r.	48r	66r	68r	81p
Gasoline consumption	81	92	88	
General Business Activity				
Bank debits, outside New York City.	69r	64	70	74p
Bank debits, New York City.	45	42	44	44
Velocity of demand deposits, outside New York City	71	65p	72p	71p
Velocity of demand deposits, New York City	47	42p	43p	43p
New life insurance sales	59	60	58	55
Factory employment, United States	80	85	86	87p
Business failures	39	46	42	37
Building contracts	21	33	40	57p
New corporations formed in N. Y. State	52	58	56	58
General price level*	140	148	149	150p
Composite index of wages*	181	190r	189	189p
Cost of living*	138	141	141	140

p Preliminary r Revised * 1913 average=100

Employment and Payrolls

From the middle of November to the middle of December employment in representative New York State factories showed a decline of about the usual seasonal proportions, while payrolls increased more than seasonally. Decreases occurred in a number of lines, including especially the food and building materials industries, but there were increases in employment in the men's clothing, shoe, and iron and steel industries. New York State factory employment for the year 1935 averaged 5 per cent above 1934 and more than 25 per cent above 1932, the low year of the depression for employment. The improvement was more pronounced in the case of payrolls, which advanced by more than 10 per cent from 1934 to 1935 and by nearly 35 per cent since 1933 when the low point of payrolls was reached.

For New Jersey, the State Department of Labor reported a less than seasonal decline in factory employment in December but virtually no change in payrolls, whereas ordinarily payrolls tend to increase in December. Employment was reduced in the stone, clay, and glass products industry and in companies in the miscellaneous metal products, leather, and textile lines, but these declines were partly offset by increased employment in other groups including principally car building and repairing, automobiles and parts, and iron and steel products.

For the United States as a whole factory employment declined less than seasonally from November to December, thereby raising the seasonally adjusted index to the highest level since October 1930. Factory payrolls also advanced by more than the customary amount and this bank's adjusted index rose to the highest point since November 1930. More people were at work in the automobile and shoe industries in December, and less than seasonal declines occurred in the iron and steel, machinery, food, and tobacco products groups. For the year 1935 as a whole, employment was higher than in any year since 1930, the 1935 average index being 4 per cent higher than that for 1934 and 28 per cent above 1932. Payrolls in 1935 were 13 per cent above 1934 and 52 per cent above 1932.

Production

Judging from preliminary data now available, there appears to have been some decrease in the volume of industrial production during January. Automobile plants around the middle of the month generally reduced operations from five to four days a week, reflecting the influence of the cold weather on sales and the passing of the first stimulation of orders resulting from the early introduction of new models. While demand for steel products by railroads and farm equipment manufacturers was well maintained, operations at steel mills were reduced somewhat from the average level of December coincident with the curtailment in automobile output. It is reported that cotton mill operations declined only moderately in January, although sales of cotton goods were retarded by price uncertainties and were at a relatively low level. Output of electric power was slightly less than in the previous month, but coal production rose, partly at least in connection with the extremely low temperatures experienced during the month.

Industrial activity during December was on the whole maintained better than is usually the case in that month and in consequence the Board's index of industrial production, adjusted for usual seasonal variations, rose from 98 per cent of the 1923-25 average in November to 103 in December. The adjusted index thus extended for the fifth month the rise begun in August, and attained the highest level since the first half of 1930. Steel operations, which generally decline in December, reached the highest point of the year, averaging 56 per cent of capacity as compared with 55 per cent in November. There were moderate gains in output of bituminous coal, lead, and zinc, as well as in silk mill activity and in deliveries of rayon; anthracite coal production rose sharply in December, and output of shoes also increased, contrary to the usual tendency between November and December. Cotton consumption, which gives a measure of activity at cotton mills, declined less than in other recent Decembers, and cement production, reflecting the acceleration of building operations, was also reduced less than ordinarily. Electric power production rose seasonally in December, while machine tool orders were received in substantially the same volume as in October and November. Total automobile assemblies were approximately the same as in November, and the adjusted indexes of production of passenger cars and of trucks, after revision of the seasonal adjustment factors to allow for the early introduction of new models, were not materially changed.

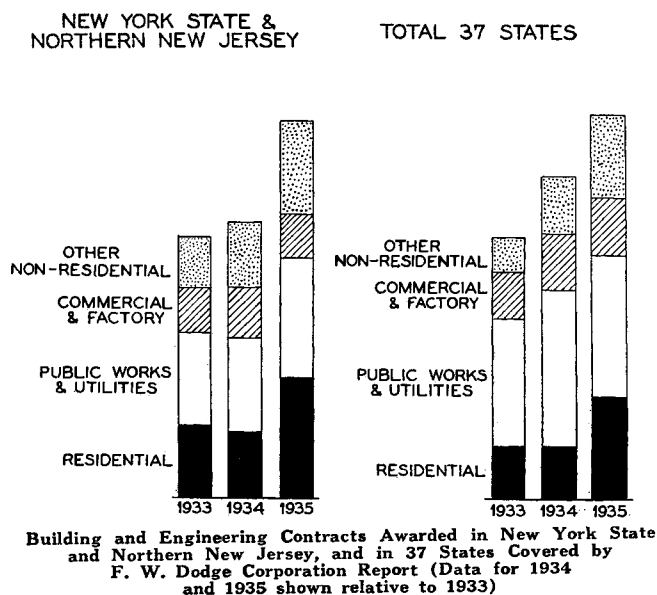
(Adjusted for seasonal variations and usual year to year growth)

	1934	1935			
	Dec.	Oct.	Nov.	Dec.	
<i>Metals</i>					
Pig iron.....	37	62	69	75	
Steel ingots.....	56	72	81	87	
Lead.....	51	56	54	58	
Zinc.....	66	66	71r	73	
<i>Automobiles</i>					
Passenger cars r.....	66r	71r	77r	76p	
Motor trucks r.....	95r	101r	104r	108p	
<i>Fuels</i>					
Bituminous coal.....	69	76	74	76p	
Anthracite coal.....	82	57	55	83p	
Petroleum, crude.....	66	71	71	73p	
Petroleum products.....	66	70	70		
Electric power.....	72	74	76p	76p	
<i>Textiles and Leather Products</i>					
Cotton consumption.....	80	83	86	91	
Wool mill activity.....	100	124	129	124p	
Silk mill activity.....	65	70	63	67	
Rayon deliveries*.....	102	104	99	107p	
Shoes.....	105	100r	108p	126p	
<i>Foods and Tobacco Products</i>					
Meat packing.....	113	80	81	83	
Wheat flour.....	89	91	87	86	
Refined sugar deliveries.....	91	78	67	100p	
Tobacco products.....	89	86	85	88	
<i>Miscellaneous</i>					
Cement.....	42	43	49	54	
Tires.....	91	67	93		
Newsprint paper.....	76	72	74p	71p	
Machine tools.....	59	83	83	84	

p Preliminary r Revised * For quarter ended

Building

All major classifications of building and engineering contracts included in the F. W. Dodge Corporation report for 37 States advanced sharply during December, and this bank's seasonally adjusted index of construction volume rose to 57 per cent of the long term trend,



the highest point reached since June 1931. The total value of contracts awarded in December was 40 per cent above the November total and nearly three times as large as in December 1934. The most pronounced gain over November was shown in nonresidential building other than public works and utilities owing to a large extent to the inclusion of a number of projects financed by the Federal Government. Awards for educational, hospital, and other types of public buildings, combined, were more than double those of November and nearly seven times as large as December 1934.

The nature and extent of the recovery in building activity during 1934 and 1935 from the low level of 1933 are indicated in the accompanying diagram, which shows contracts awarded by different types of construction in the territory corresponding closely with the Second Federal Reserve District and also contracts for the 37 States included in the Dodge report. In the New York State and Northern New Jersey area total contracts in 1935 were 36 per cent above the 1934 volume and 45 per cent higher than 1933. During 1935 the most marked gain occurred in the residential field, in which the value of contracts was more than 75 per cent higher than the previous year. Contracts for public works and utility projects were approximately 33 per cent higher, and other nonresidential contracts were 16 per cent above 1934, substantial increases in contracts for schools, hospitals, and other public buildings exceeding decreases in contracts for commercial and factory buildings.

For the 37 States, total contracts in 1935 were nearly 20 per cent higher than in 1934 and 47 per cent in excess of 1933. The increase during the past year in residential building amounted to over 90 per cent, a somewhat larger increase than occurred in the New York and Northern New Jersey area. Contracts for public works and utility projects in the 37 States declined 8 per cent during 1935, and commercial and factory building was only slightly larger, but contracts for other types of non-residential work were more than 45 per cent larger than in 1934.

Following the large increase in building activity during December, figures for the first three weeks of Janu-

ary indicated a recession in all types of contracts. Residential building, however, declined less than seasonally and was substantially larger than a year ago. The total of contracts for all types of construction was virtually double the 1935 rate.

Foreign Trade

During December merchandise imports increased, contrary to the usual seasonal movement, while exports showed more than the customary seasonal recession from the previous month which, however, was a comparatively active period for export trade. The value of exports at \$224,000,000 was 31 per cent above a year ago, and imports of \$187,000,000 showed an increase of 41 per cent. Although exports of wheat and wheat flour, animal food products, and certain manufactures continued smaller than in 1934, most of the leading exports gained in volume and value. Especially large increases occurred in shipments of automobiles, raw cotton, crude and refined petroleum products, and unmanufactured tobacco. Among the major imports, only receipts of sugar and alcoholic beverages showed decreases compared with a year ago.

For the calendar year 1935, exports totaled \$2,282,000,000 and imports \$2,048,000,000, in both cases the largest amounts since 1931. With the exception of 1933, however, the 1935 excess of exports over imports was the smallest for any year since 1910. The reduction in the export trade balance compared with 1934 resulted from an increase of 24 per cent in imports while exports showed a gain of 7 per cent. Throughout 1935 import values were consistently and substantially above the corresponding figures for the preceding year, but export values dropped below the 1934 level during three months in the first half of the year and showed only slight gains in several other months.

Among the exports, manufactured goods shipped abroad were as a whole considerably larger in the year 1935 than in 1934; the principal exceptions were such items as cotton cloth, aircraft, copper, and miscellaneous wood and steel products. Exports of raw cotton showed increases of 3 per cent in quantity and 5 per cent in value over the corresponding 1934 totals, but substantial decreases occurred in shipments of grains, and grain and meat products. Tobacco exports were likewise smaller in volume than in the previous year, but, owing to a substantial rise in tobacco prices, their value showed an increase.

In the case of imports, the majority of commodities were purchased abroad in larger volume and value during 1935 than in the preceding year. Imports of wool were nearly double those of 1934 and were the largest since 1929. Exceptional increases also occurred in receipts of meat products, hides and skins, tin, nickel and copper, burlaps and raw silk. Imports of whiskey and wines, on the other hand, were less than in 1934. Sugar receipts, although slightly smaller in volume than in the previous year, showed a gain of 14 per cent in value, due to an increase in sugar prices.

Department Store Trade

During the first half of January, total sales of the reporting department stores in the Metropolitan area of New York were 10.7 per cent higher than in the cor-

responding period of the previous year, but showed about the usual seasonal recession from December.

For the month of December, total sales of the reporting department stores in this district were 4.3 per cent larger than in December 1934, a smaller percentage increase over a year previous than was reported in November, due to the fact that the comparison is with a year in which December business was more than seasonally greater than in November. There appears to have been a larger than seasonal expansion in sales between November and December, and this bank's seasonally adjusted index reached the highest point since March 1934. With the exception of the Northern and Southern New York State areas, department store sales in all of the principal localities in this district remained larger in December 1935 than in December 1934, and sales of the leading apparel stores in this district were 9.8 per cent higher than a year previous.

For the year 1935, total sales of the reporting department stores in this district were 1.7 per cent larger than for 1934, as compared with an increase of 6.4 per cent from 1933 to 1934. Apparel store sales were 6.6 per cent larger than in 1934, following an increase of 10.7 per cent between 1933 and 1934.

The retail value of stocks of merchandise held by the department stores at the end of December was again slightly below the corresponding month of the previous year, but stocks of the apparel stores continued to be higher than a year ago. For the first time in several months, department store collections of accounts outstanding were slower than a year previous but apparel store collections continued better.

Locality	Percentage change from a year ago			Per cent of accounts outstanding November 30 collected in December	
	Net sales		Stock on hand end of month	1934	1935
	Dec.	Jan. to Dec.			
New York.....	+ 4.0	+ 1.3	- 2.5	46.3	45.6
Buffalo.....	+ 9.3	+ 6.2	+ 5.6	48.1	48.6
Rochester.....	+ 4.8	+ 3.8	- 2.1	46.0	46.2
Syracuse.....	+ 7.8	+ 7.1	- 6.7	37.4	38.8
Northern New Jersey.....	+ 3.3	+ 1.4	+ 5.6	42.3	41.2
Bridgeport.....	+10.4	+ 5.2	+ 0.7	38.5	41.4
Elsewhere.....	+ 4.0	+ 0.5	- 4.3	30.9	32.6
Northern New York State.....	- 3.0	- 2.4	.....	.....	.....
Southern New York State.....	- 0.7	+ 0.2	.....	.....	.....
Hudson River Valley District.....	+ 1.9	- 2.5	.....	.....	.....
Capital District.....	+ 2.8	+ 1.0	.....	.....	.....
Westchester and Stamford.....	+16.9	+ 2.9	.....	.....	.....
All department stores.....	+ 4.3	+ 1.7	- 1.4	44.2	43.8
Apparel stores.....	+ 9.8	+ 6.6	+ 8.1	44.7	46.0

Wholesale Trade

In December total sales of the reporting wholesale firms in this district averaged 8.9 per cent higher than in December 1934. Several individual lines, including grocery, men's clothing, cotton goods, shoes, and paper, reported larger increases in sales than in November, and sales of the hardware, diamond, and jewelry concerns made the best comparisons with a year previous since September. Stationery firms, on the other hand, registered the smallest increase in 4 months, yardage sales of silk goods were below a year ago for the first time in a number of months, and the drug concerns also reported

a smaller volume of sales, the first decline from a year previous since last March.

For the year 1935, total sales of the reporting wholesale firms in this district averaged 5½ per cent higher than for the year 1934, compared with an increase of 15 per cent from 1933 to 1934, and an increase of about 7 per cent between 1932 and 1933.

Commodity	Percentage change December 1935 compared with December 1934		Per cent of accounts outstanding November 30 collected in December		Percentage change net sales Year 1935 compared with Year 1934
	Net sales	Stock end of month	1934	1935	
Groceries.....	+ 2.9	-14.0	89.5	88.8	+ 2.3
Men's clothing.....	+12.0	.....	49.4	53.1	+ 9.8
Cotton goods.....	+16.7	.....	47.9	44.4	+ 0.1
Rayon and silk goods.....	- 2.9*	+27.5*	75.3	62.4	- 5.2*
Shoes.....	+14.8	.....	39.2	38.0	+ 4.4
Drugs.....	- 1.1	- 0.2	27.2	30.8	+ 5.9
Hardware.....	+ 8.6	- 7.8	48.4	49.4	+ 3.2
Stationery.....	+ 4.0	.....	57.9	57.3	+ 0.8
Paper.....	+ 8.2	.....	50.8	55.4	+ 6.9
Diamonds.....	+34.7	+19.8	29.6	27.5	+25.6
Jewelry.....	+14.6	-14.0	.....	.....	+ 9.1
Weighted average.....	+ 8.9	.....	59.5	58.9	+ 5.5

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

Chain Store Trade

Total December sales of the reporting chain store systems were 4.3 per cent higher than in December 1934, a smaller percentage increase than was recorded in the previous month, but sales in general appear to have shown about the usual seasonal increase over November. Individual lines reporting smaller gains over a year ago than in November included the ten cent, drug, shoe, and variety chain stores; candy chain store systems reported a substantial decline in sales, the largest since last March. On the other hand, the grocery chains registered the largest increase in sales since May 1934.

For the year 1935, total sales of the reporting chain stores were 1.8 per cent higher than for 1934, as compared with an increase of 8.3 per cent from 1933 to 1934, and a decline of 1.4 per cent from 1932 to 1933.

A slight increase in the total number of stores operated by the chain systems occurred between December 1934 and December 1935, so that sales per store of all reporting chains during December showed a somewhat smaller percentage gain than did total sales. Grocery chains continued to operate fewer stores while most of the other lines reported increases in the number of units.

Type of store	Percentage change December 1935 compared with December 1934			Percentage change Year 1935 from Year 1934	
	Number of stores	Total sales	Sales per store	Total sales	Sales per store
Grocery.....	- 2.0	+ 4.4	+ 6.6	- 2.9	+ 0.1
Ten cent.....	+ 1.9	+ 3.5	+ 1.6	+ 1.0	- 0.4
Drug.....	+ 6.4	+ 7.9	+ 1.4	+ 7.0	+ 0.6
Shoe.....	- 0.2	+ 4.3	+ 4.4	- 1.1	+ 1.4
Variety.....	+ 0.7	+ 6.0	+ 5.2	+ 7.1	+ 6.0
Candy.....	+18.6	-19.8	-32.3	- 8.4	-15.1
Total.....	+ 0.4	+ 4.3	+ 3.9	+ 1.8	+ 2.3

FEDERAL RESERVE BANK OF NEW YORK

MONTHLY REVIEW, FEBRUARY 1, 1936

Business Conditions in the United States

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

INDUSTRIAL production and employment showed a further increase in December, when allowance is made for the usual seasonal changes, and distribution of commodities to consumers was in increased volume.

PRODUCTION AND EMPLOYMENT

The Board's seasonally adjusted index of industrial production, which takes account of the considerable decline that usually occurs in December, advanced from 98 per cent of the 1923-1925 average in November to 103 per cent in December, the highest level reached by this index since the spring of 1930. As in other months during the last half of 1935, the rise in the index was due in large part to increases in output of durable manufactures; particularly iron and steel and automobiles. During the first half of January production of steel and automobiles increased somewhat, following declines in the holiday period. Output at mines was also larger in December than in November. Activity at cotton and silk textile mills declined less than is usual in December, while at woolen mills there was a more than seasonal decrease in operation. Output at shoe factories increased.

Factory employment showed little change between the middle of November and the middle of December, when a slight decline is customary. The number employed continued to increase at steel mills, automobile factories, foundries and machine shops, and at railroad car building plants. There was also an increase in employment at shoe factories. Seasonal declines were reported by many other important industries. Factory payrolls were larger in the middle of December than a month earlier.

The value of construction contracts awarded increased sharply in December, according to figures of the F. W. Dodge Corporation, although a decline is usual in that month. There was a further substantial growth in the volume of awards for publicly financed projects and residential building also increased.

DISTRIBUTION

Sales at department stores and variety stores, as well as sales by chain stores and mail order houses serving rural areas, showed larger increases than are usual in December. Freight car loadings decreased by less than the usual seasonal amount in December, and the Board's adjusted index increased from 66 per cent of the 1923-1925 average in November to 71 per cent, continuing the advance begun last August.

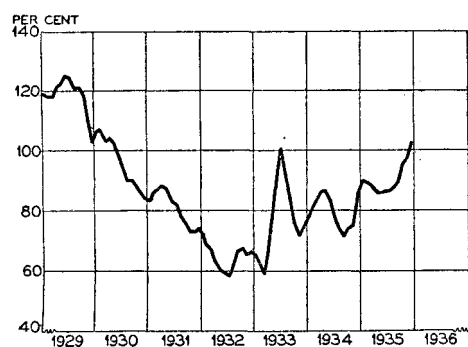
COMMODITY PRICES

The general level of wholesale prices showed little change during December. In the first three weeks of January there was some decline in the general index, reflecting in part lower prices for cotton gray goods, flour, pork, and silk. Prices of hogs, rubber, and petroleum increased.

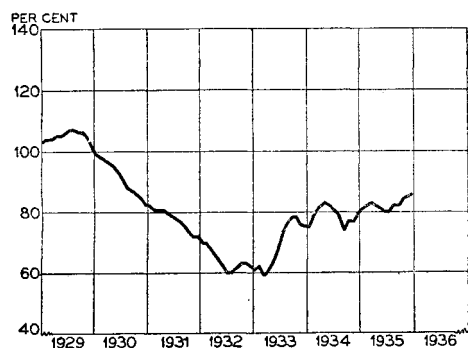
BANK CREDIT

Excess reserves of member banks, which declined by \$600,000,000 in the third week of December, increased by \$320,000,000 during the following five weeks, reflecting the usual seasonal return flow of currency from circulation, a decline in Treasury balances with the Federal Reserve Banks, and a small increase in monetary gold stock. On January 22 excess reserves totaled \$3,030,000,000, as compared with the peak of \$3,300,000,000 on December 11, 1935.

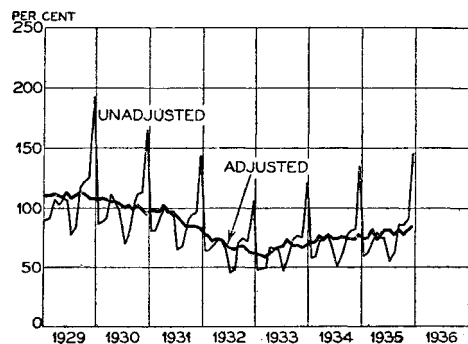
Changes in the condition of reporting member banks in leading cities between December 18 and January 15 reflected largely the influences of seasonal factors.



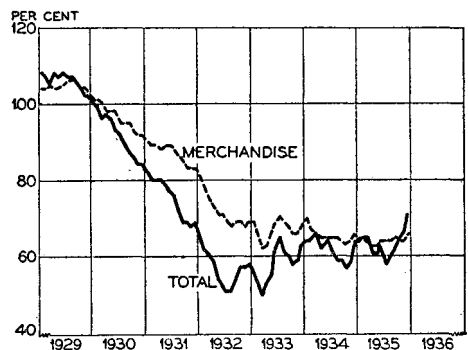
Index Number of Production of Manufactures and Minerals Combined, Adjusted for Seasonal Variation (1923-25 average = 100 per cent)



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



Indexes of Daily Average Value of Department Store Sales, Adjusted for Seasonal Variation and Unadjusted (1923-25 average = 100 per cent)



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