MONTHLY REVIEW
of Credit and Business Conditions
Second Federal Reserve District

Federal Reserve Agent | *Federal Reserve Bank, New York* | *July 1, 1936*

Money Market in June

Excess reserves of the principal New York City banks after fluctuating around $1,200,000,000 in the latter part of May and early June, dropped abruptly to a little over $600,000,000 at the middle of June, reflecting the effects of Treasury financing and income tax collections. For the country as a whole, excess reserves rose to nearly $3,000,000,000 in the early part of the month, the highest level since the early part of March, and then dropped to a little over $2,000,000,000 on June 17. In both cases the amount of excess reserves on June 17 was the smallest in more than a year. As the accompanying diagram indicates, the volume of member bank excess reserves has been affected by Government financing operations in each of the recent tax periods, but the reduction attributable to that factor was larger this month than ever before, as Treasury balances in the Reserve Banks reached a new high point at more than $1,400,000,000.

The principal cause of this reduction in member bank reserves and increase in Treasury deposits on June 15 was cash payments for new Government securities, which amounted to $475,000,000 in this district and nearly $900,000,000 for the country as a whole. Income tax collections and other Treasury receipts, including the retirement of preferred stock in banks held by the Reconstruction Finance Corporation, substantially exceeded interest payments by the Treasury and other Government disbursements.

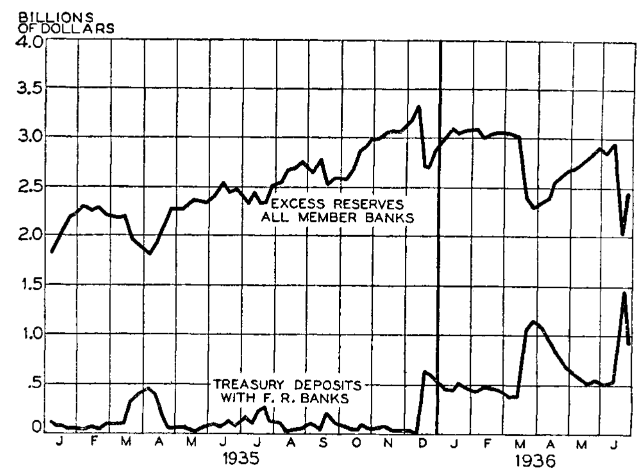
On the other hand, the heavy gold inflow during the first three weeks of June tended to increase member bank reserves, chiefly in New York, and offset to some extent the withdrawals of funds by the Treasury. Gold receipts at the Port of New York during the four weeks ended June 24 amounted to approximately $200,000,000. This movement, however, ceased at the end of the third week of June.

Veterans Adjusted Service Bonds

After June 15, a rapid reaccumulation of excess reserves of member banks occurred, due very largely to the cashing of Veterans Adjusted Service bonds and the checks issued to veterans for the odd amounts payable in addition to the bonds, which were issued in $50 units. In the Federal Reserve Bank of New York a large staff had been working under pressure for a number of weeks to prepare the Adjusted Service bonds and checks from lists certified by the Veterans Administration to the Treasury disbursing officer, and similar staffs were organized in each of the other Federal Reserve Banks and in the Treasury Department at Washington. In this district over 4,000,000 bonds were inscribed with the names of about 385,000 veterans and prepared, with checks for the odd amounts, for mailing to veterans. The bulk of these bonds and checks were ready for distribution and sent to the Post Office on or before June 15, so that they could be distributed promptly to the veterans.

A large part of the checks for odd amounts were cashed within a few days, and within a week cash payments of checks issued for the redemption of Adjusted Service bonds reached a daily volume of 20 to 25 million dollars in this district and around 100 million dollars for the country as a whole, after which there was a gradual decline. These payments, together with other Government disbursements, had the effect of reducing Treasury balances in the Reserve Banks rapidly. The cashing of Adjusted Service checks and bonds resulted in a substantial, though probably temporary, increase in the amount of currency outstanding, however, and until this currency finds its way back to the banks, payments out of the Treasury account will not have their full effect in increasing member bank reserves. Futhermore, as the June month-end and Fourth of July holiday approached, a further increase of a seasonal nature in the amount of currency in circulation was in prospect.

Nevertheless, by June 24, as a result of Treasury disbursements, together with gold imports, excess reserves of the New York City banks had risen to about $735,000,000, and excess reserves of all member banks



Excess Reserves of All Member Banks and Treasury Deposits in Federal Reserve Banks

had risen above $2,400,000,000, and further increases appeared to be in prospect.

Money Rates

Despite the wide fluctuations in member bank reserves, money rates showed little change during June, except for a slight increase in yields on Treasury notes.

Money Rates at New York

	June 28, 1935	May 29, 1936	June 29, 1936
Stock Exchange call loans	¼	1	1
Stock Exchange 90 day loans	*¼	*1¼	*1¼
Prime commercial paper—4 to 6 months	¾	¾	¾
Bills—90 day unindorsed	⅛	⅛	⅛
Customers' rates on commercial loans (Average rate of leading banks at middle of month)	1.79	1.67	1.67
Treasury securities:			
Maturing December (yield)	No yield	No yield	No yield
Maturing February 1938 (yield)	....	.14	.23
Average yield on Treasury notes (1-5 years)	.53	.69	† .79
Average yield on Treasury bonds (more than 5 years to earliest call date)	2.44	2.32	#2.34
Average rate on latest Treasury bill sales 273 day issue	.12	.20	.19
Federal Reserve Bank of New York rediscount rate	1½	1½	1½
Federal Reserve Bank of New York buying rate for 90 day indorsed bills	½	½	½

* Nominal. † Average raised .05 by inclusion of 1⅜ per cent Treasury note issue maturing June 15, 1941. # Average raised .02 by inclusion of 2¾ per cent Treasury bond issue of 1951-54.

Member Bank Credit

During the three weeks ended June 17 the total loans and investments of weekly reporting member banks in New York City increased $480,000,000, to the highest point ever reached, largely in connection with the Government financing on June 15. For some weeks prior to the subscriptions for the new Treasury securities the New York City banks had been adding to their holdings of Government securities, partly through purchases of the weekly issues of Treasury bills, and apparently also through acquisitions of Treasury notes maturing on June 15 and August 1, which were exchangeable for the new Treasury issues. In the week ended June 17 there was a further increase of $140,000,000, and total holdings reached a volume $432,000,000 above the largest amount held in March.

The loans of the New York City banks to brokers and dealers increased by more than $200,000,000 in the first week of June, probably due in large measure to dealers' borrowings to carry the portfolios of Government securities which they had acquired to exchange for new issues. After June 3 the volume of such loans showed a gradual reduction, but remained higher on June 24 than a month previous. Loans other than security loans and holdings of securities other than Government issues showed small net increases in the four weeks ended June 24.

In reporting member banks in 100 other principal cities throughout the country, holdings of Government securities were reduced gradually for several weeks preceding the June issues, but in the week ended June 17 there was an increase of $334,000,000 which, as in the case of the New York City banks, raised Government security holdings to a new high level. These banks also had a moderate increase in their loans on securities, and small increases in other loans and in securities other than Government issues. The increase in their total loans and investments in the four weeks ended June 24 amounted to $303,000,000.

Government Securities

On June 1 the Secretary of the Treasury announced offerings of approximately $600,000,000 of 2¾ per cent Treasury bonds of 1951-54 and $400,000,000 of 1⅜ per cent Treasury notes due June 15, 1941, to be issued on June 15. Additional amounts of the same securities were offered in exchange for Treasury notes maturing on June 15 and for Treasury notes maturing August 1.

The securities offered for cash subscription were promptly oversubscribed, subscriptions for both issues being approximately seven times the amount offered. Allotments of the Treasury bonds amounted to $671,000,000 and of the notes $435,000,000, a total of $1,106,000,000. Of the total amount, $539,000,000, or slightly under half, was allotted in this district. Holders of Treasury notes maturing on June 15 and August 1 showed a distinct preference for the new Treasury bonds; exchanges of June 15 and August 1 notes for the Treasury bonds amounted to $956,000,000, while exchanges for the new Treasury notes totaled less than $69,000,000.

The Treasury continued to issue $50,000,000 of 273 day Treasury bills and an additional $50,000,000 of Treasury bills due December 15, 1936, each week, whereas maturing Treasury bills amounted to $50,000,000 weekly. On June 25, however, the Treasury announced that the weekly issue of December Treasury bills was being discontinued.

A strong market for Government securities followed the announcement of the new Treasury bonds and notes on June 1. Quotations on the securities to be issued June 15 rose quickly to a premium, and prices of outstanding Treasury issues also advanced. The average yield on Treasury bonds maturing in more than five years declined to 2.30 per cent, equaling the previous low point for recent years reached in May. Subsequently trading diminished in volume and prices receded gradually, but the average yield on Treasury bonds, after allowance for the effect of the new issue on June 15, was the same at the end of June as at the end of May. The average yield on Treasury notes of 1-5 year maturity, with similar adjustment for the effect of the new issue on June 15, also rose gradually after the first few days of the month, and at the end of June was 0.05 per cent higher than at the end of May.

Bills and Commercial Paper

Trading activity in the bill market during June continued to be small in volume and rates were unchanged. At the end of May outstanding bills amounted to $331,000,000 as compared with $344,000,000 for April, and $375,000,000 a year ago. The decline for the month reflected small decreases in bills based on exports and domestic warehouse credits and in bills based on goods stored in or shipped between foreign countries. Accepting banks and bankers continued to hold about 90 per cent of all bills drawn.

In the commercial paper market also sales volume remained small, due primarily to inability of dealers to secure adequate quantities of new paper with which to fill the active demand. The average run of prime four to six month commercial paper continued at ¾ per cent. Especially choice names of shorter maturity, when available, were quoted at slightly lower levels. Commercial paper dealers reported $184,000,000 of paper outstanding at the end of May as compared with $174,000,000 for April and $173,000,000 for May 1935.

Foreign Long Term Investments in the United States

On the basis of an extended special survey, the Finance Division of the Department of Commerce has estimated the value of foreign long term investments in the United States at the end of 1935 at $5,035,000,000, as compared with $4,270,000,000 a year earlier. The increase in the recorded value of such investments during 1935 was due both to the upward tendency of American common stock prices, which raised the market value of existing foreign holdings of common stocks, and to rather extensive net acquisitions of American securities by foreign investors during the second half of the year. The income derived from foreign long term investments here was estimated by the Finance Division at $140,000,000 in 1935, indicating an average rate of return in the neighborhood of 3 per cent.

The above figures, combined with the Finance Division estimates of the nominal value of American investments in foreign countries and the income received from such investments, provide a measure of this country's net creditor position on long term account. The nominal value of American private long term investments abroad at the end of 1934, the latest date for which published figures are available, was estimated at $13,114,000,000, of which $7,818,000,000 consisted of direct investments abroad, and the remainder, $5,296,000,000, of foreign dollar bonds and other portfolio investments. The current market value of these investments, however, is considerably lower. The income received from these investments during 1934 was placed at $455,000,000, and the indicated average rate of return during the year was about 3.4 per cent. The nominal value of American investments abroad appears to be slightly more than two and a half times the value of foreign long term investments in this country, and the income received on American investments abroad somewhat more than three times the income paid on foreign investments in the United States.

An estimate of foreign investments in the United States prepared by Sir George Paish, editor of the London *Statist,* for the National Monetary Commission in 1910 placed the value of foreign long term investments in this country at roughly $6,000,000,000, of which $3,500,000,000 was held in Great Britain, $1,000,000,000 in Germany, $750,000,000 in Holland, and $620,000,000 in France. The income derived from such investments was estimated at nearly $300,000,000 a year. On the basis of this estimate, foreign investments in this country prior to the war appear to have been somewhat larger than at the present time, suggesting that the investment of foreign capital in the United States during the post-war period has not been quite sufficient to offset the extensive liquidation of foreign holdings of American securities from 1914 to 1918. When account is taken of American industrial growth during the past twenty-five years, the proportionate share of foreign investors in American industry was much larger before the war than at the present time.

A classification of foreign long term investments in this country at the end of 1935, according to type of investment and country of ownership, is shown in the accompanying table. Foreign holdings of American stocks and bonds, at $2,951,000,000, account for nearly 60 per cent of the total. The year-end market value of common stock investments was placed at $2,015,000,000, and the par value of foreign-held bonds and preferred stocks at $936,000,000. Slightly over 20 per cent of foreign investments here are included in the category of direct investments, representing the aggregate foreign interest in foreign-controlled industrial corporations in this country. The remaining 20 per cent of foreign long term investments in this country, shown in the table as "Other Investments", consists of assets held in trust for foreign account, the net equity of foreign insurance companies in United States branches and affiliates, and foreign holdings of mortgages and real estate. The most important item in this group of investments consists of securities and properties administered by trustees for foreign beneficiaries. Such investments, which are somewhat arbitrarily valued at $415,000,000, consist in large part of stocks and bonds not elsewhere recorded.

In examining the geographical distribution of foreign long term investments in this country, it appears that British investments constituted about 27 per cent of the total, Canadian investments 20 per cent, and Dutch, Swiss, and French investments combined an additional 29 per cent. These five countries together held about three-quarters of the total foreign long term investments in the United States, and over half of the remainder was owned by European countries whose holdings are not separately shown in the table below.

(In millions of dollars)

	Stocks and Bonds	Direct Investments	Other Investments	Total
Great Britain	609	362	403	1,374
Canada	523	322	161	1,006
Netherlands	429	249	106	784
Switzerland	311	13	75	399
France	214	14	54	282
Other Countries	865	85	240	1,190
Total	2,951	1,045	1,039	5,035

Security Markets

The average daily turnover of stocks on the New York Stock Exchange was less than 1,000,000 shares during June, but stock prices continued the irregular advance which began in early May. As a result the general level of stock prices at the end of June stood 3½ per cent above a month previous, but remained about 4 per cent below the April peak. Industrial and railroad shares remained below the April level, but the public utilities rose during the course of the month to a level only slightly below the high point of last February, which was the highest since August 1933.

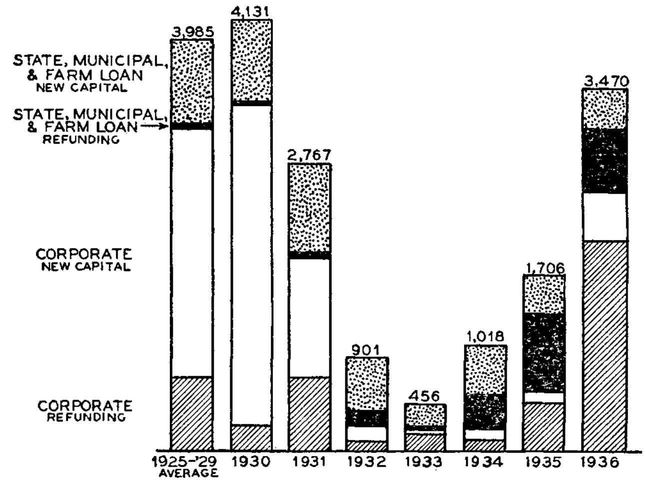
Price movements in the medium and lower grade domestic corporation bonds were similar to stock price movements. The advance in June together with that of the previous month was sufficient to cancel the April recession, and average prices near the end of the month were about 1½ points below the year's highs established last February. High grade corporate issues, which showed less pronounced declines in April, continued through the first half of June the upward tendency shown in May, and prices again established new highs for a number of years. Subsequently, however, the market developed some irregularity.

New Financing

New financing increased in volume during June following the May slackening, all principal classifications sharing in the increase. Preliminary data indicate the flotation of about $750,000,000 of securities including public offerings and private placements, as compared with approximately $400,000,000 in May and about $1,000,000,000 in April. The June total was composed chiefly of about $200,000,000 State and municipal, $180,000,000 of public utility, $160,000,000 of industrial, $110,000,000 railroad, $83,000,000 Federal Land Bank, and $10,000,000 Federal Intermediate Credit Bank issues. The proceeds of the new securities continued to be chiefly for the refunding of outstanding issues bearing higher interest rates, although in some cases at least a small part of the money raised was to provide new capital. Distribution of the new securities is reported to have proceeded fairly satisfactorily in general, although, following the development of some irregularity in prices of outstanding securities, the market appeared to absorb new issues somewhat less readily toward the end of the month. Market response continued to be more favorable to high grade than to medium grade issues.

The largest offering of the month was the $83,000,000 issue of Consolidated Federal Farm Loan 3 per cent bonds due in 1956, which were offered at 100¼ on June 11 and were quoted at a slight premium at the end of the month. These bonds were to redeem outstanding 4¼ per cent bonds of the individual Federal Land Banks, of which about $58,000,000 were in public hands while the remainder were held by various Government agencies. On June 30, $75,000,000 of New York State notes maturing in May 1937 were sold at a price to yield 0.40 per cent. The Texas Corporation on June 16 issued $60,000,000 of 15 year 3½ per cent refunding debentures at par, which immediately went to a slight premium. Other large flotations which were well received were The Niagara Falls Power Co. $32,500,000 issue of refunding 3½ per cent bonds maturing in March 1966, offered at 104, and the Wisconsin Public Service Corporation $25,000,000 issue of refunding 4's maturing in 25 years, offered at 99½.

In the accompanying diagram the volume of domestic securities floated in the first six months of this year is compared with the average for the first half of the years from 1925 to 1929, and with the first six months of each subsequent year. As this diagram indicates, the 1936 total is the largest since 1930, due chiefly to the heavy refunding operations. Corporate refunding operations alone in the first half of 1936 exceeded by $300,000,000 the total of all security issues in the first half of 1935. Following increases through 1935, State, municipal, and farm loan refunding issues, other than securities guaranteed by the United States Government, were somewhat smaller in 1936 than in 1935, although they continued to account for a considerable part of the total. New capital obtained by domestic corporations through security flotations has shown consistent growth since 1933, but remains far below the years prior to 1932.



Offerings of Domestic Securities in First Six Months of 1936 Compared with Corresponding Period of Previous Six Years and Average for 1925-29 (Commercial and Financial Chronicle data, excluding investment trust issues; in millions of dollars. June 1936 figures preliminary)

Foreign Exchanges

Political and financial developments in France continued to be the major influence in the foreign exchange market during June. Pressure against French exchange again became severe in the early part of the month, but abated considerably thereafter. A wave of industrial strikes, which occurred simultaneously with the assumption of office by the new Popular Front Government early in June, served to intensify the feeling of apprehension regarding the French financial and monetary situation. The accentuation of pressure against the franc was reflected both in an accelerated outward movement of gold from France, most of which was shipped to this country, and in a further advance in the pound sterling in terms of both francs and dollars. With the exception of occasional periods of slight temporary firmness, the franc-dollar rate remained in the neighborhood of $0.0658⅜, the effective gold shipping point from Paris to New York, until June 19, and the discount on three month forward francs was quoted above 30 per cent per annum throughout this period. In the three weeks ended June 19, the gold holdings of the Bank of France decreased $204,000,000, of which nearly $160,000,000 was taken for shipment to the United States. This gold outflow reached its largest proportions early in the month and a gold loss of $100,000,000 was reported by the Bank of France for the week ended June 5.

Owing to the intensified French demand for sterling, which operated both directly and through the dollar, the pound advanced further, reaching a quotation of over 76½ francs and touching a high of slightly over $5.04 during the course of trading on June 4 and again on June 16. This dollar quotation was fractionally above the February 1936 peak, and was the highest since August 1934, when measures taken to effectuate the Silver Purchase Act of 1934 were followed by a period of moderate weakness in dollar exchange.

The abatement of pressure against the franc and the suspension of the outward gold movement from France followed an address on June 19 in the Chamber of Deputies by the French Minister of Finance, outlining the Government's monetary and financial program. This program included a rejection of devaluation, penalties to check speculation against the franc, and measures designed to bring about a repatriation of French capital. The franc-dollar rate promptly went above the effective gold shipping point from Paris and continued to show a moderate upward tendency during the remainder of the month, closing at $0.0663¾ on June 27. The discount on three month forward francs was reduced to the equivalent of about 15 per cent a year. The other gold bloc currencies also recovered in the second half of June, and the gold outflow from Holland and Switzerland virtually ceased in the third week of the month. The recovery in French exchange was accompanied by a moderate net downward movement in sterling, the pound-dollar rate receding to $5.01⅛ on June 22, but sterling subsequently advanced to $5.03⅛ on the 27th.

Closing Cable Rates at New York

Exchange on	June 29, 1935	May 29, 1936	June 29, 1936
Belgium	$ .1694	$ .1692	$ .1691
Denmark	.2207	.2231	.2245
England	4.9413	4.9950	5.0263
France	.06639	.06583	.06633
Germany	.4048	.4024	.4036
Holland	.6837	.6752	.6810
Italy	.0831	.0786	.0787
Norway	.2483	.2511	.2527
Spain	.1376	.1365	.1375
Sweden	.2546	.2577	.2593
Switzerland	.3285	.3230	.3275
Canada	.9988	.9984	.9975
Argentina	.3295	.3330	.3350
Brazil	.0857	.0859	.0859
Uruguay	.8000	.8000	.8000
Japan	.2909	.2930	.2942
India	.3737	.3774	.3796
Shanghai	.3956	.2988	.3013

Gold Movement

The movement of gold to this country which began during the last week of April continued in large volume through the third week in June, but after the 23rd there were no receipts from France and Holland. Some gold, however, continued to arrive from India.

Total imports of gold at New York affecting the monetary gold stock of the United States amounted to $220,000,000 of which $160,600,000 came from France, $29,100,000 from Holland, $13,600,000 from Mexico, $6,900,000 from India, $2,400,000 from England, $2,100,000 from Colombia, and $200,000 from Russia. On the West Coast, $1,500,000 was received from Australia and $600,000 from China.

Newly mined and scrap gold continued to be received at the mints and assay offices, but was more than offset by a net increase of $24,800,000 in gold held under earmark for foreign account at this bank. The monetary gold stock of the country was increased by approximately $205,000,000 during the month as a net result of all transactions.

Central Bank Rate Changes

The discount rate of the Bank of France was lowered from 6 to 5 per cent effective June 24 and again to 4 per cent effective the 26th, following the slackening of the outflow of gold from France. The bank's other rates were simultaneously reduced, with the exception of the rate for advances on gold, which remains at 9 per cent, as fixed on May 7.

The Netherlands Bank rate, which had been raised from 3½ to 4½ per cent on June 4, was reduced to 4 per cent effective the 25th and to 3½ per cent effective the 30th.

Commodity Prices

Weather conditions unfavorable for the growth of many crops resulted in substantial price advances in a number of agricultural commodities during June. Wheat prices showed little movement in the early part of the month, and the Government June 1 crop report, issued on June 10, in which winter wheat production was estimated at 481,870,000 bushels, about 18,000,000 bushels above the May 1 estimate, and the spring wheat crop was estimated at about 200,000,000 bushels, apparently had little effect on quotations. During the remainder of the month, however, sharp increases were shown in wheat prices, reflecting private reports of damage to the spring wheat crop by drought in the Northwest and high temperatures together with insect infestation in other areas. A special Government crop report was issued on June 19 describing the serious damage caused by the dry weather in the northwestern area. Consequently, the cash price for Number 1 Northern wheat at Minneapolis rose to $1.35⅛ a bushel, which is 20⅝ cents above the end of May and virtually at the year's high. The September future for wheat at Chicago also advanced 11¾ cents to 96⅛ cents a bushel, and spot corn rose 7⅝ cents to 68⅜ cents a bushel, the highest since last November. Some reaction, however, was shown in grain prices toward the close of the month.

Higher prices for truck crops, especially potatoes, also resulted from adverse weather conditions, although rainfall in the eastern States in the latter part of the month proved beneficial. Private estimates of the cotton crop were lowered several times during June because of unfavorable weather, and spot cotton rose as high as 12.49 cents a pound, but subsequently declined to close the month at 12.39 cents a pound, compared with 11.77 cents at the end of May. As a result of a reduction in marketings the average price of hogs made an advance more than sufficient to cancel the recession in May. The price of steers continued to move somewhat lower during the first part of the month, but subsequently recovered a large part of this loss.

Following the declines shown in the two previous months, a substantial advance occurred in raw silk prices during June, the spot quotation rising 10 cents to $1.61½ a pound. Rayon and domestic wool prices also moved higher during the month. Among the principal metals, scrap steel at Pittsburgh declined further to $13.25 a ton, a level $2.50 below the year's high point reached last February, but later rose to $13.50. The price of tin also showed further net loss during June. Other metal prices continued at previously current levels.

Employment and Payrolls

Between the middle of April and the middle of May the number of workers employed in New York State factories increased for the fourth consecutive month. Although the increases in each of the past two months were small, the movements were contrary to the usual seasonal tendency and consequently this bank's adjusted index of employment rose to the highest level since October 1930. Factory payrolls also advanced unseasonally, raising the adjusted index approximately 2 per cent to the highest point since August 1931. Increases in the number of workers in the building material, metal and machinery, and chemical groups were offset only in part by decreased employment in the clothing, shoe, and paper industries.

For the country as a whole, private employment in manufacturing and nonmanufacturing industries covered by reports to the Department of Labor increased for the third consecutive month in the period between April 15 and May 15, but the increase was smaller than in either of the two preceding months. Contrary to the usual seasonal tendency, factory employment advanced somewhat further in May raising the seasonally adjusted index 1 per cent to a level about 5 per cent higher than a year ago; the improvement was largely concentrated in the durable goods industries, which as a group showed a gain of 2 per cent in the number of employees, whereas the nondurable goods group registered a slight decline, due primarily to seasonal decreases in the textile and leather industries. Compared with a year ago the durable goods group has shown an increase in employment of nearly 11 per cent while the nondurable goods industries are employing practically the same number of workers as in May 1935.

Among the nonmanufacturing industries employment in 12 of the 16 groups surveyed by the Department of Labor showed increased employment from April to May. The principal gain occurred in private building construction which reported 15 per cent more workers in May than in April. Employment in anthracite coal mining and in the various service industries also reported sizable gains. Employment in retail trade remained practically unchanged, while employment in wholesale trade declined somewhat.

Production

Industrial output in general does not appear to have shown the usual seasonal slackening in June. Some curtailment of automobile production occurred in the early part of the month but was reported to have been checked in the latter part, due to well sustained retail sales of cars. Steel mills apparently equaled or exceeded the average level of operations prevailing in May. Requirements of the automobile industry for steel for current production declined, but demand for construction, railway, and miscellaneous uses was well maintained, and during the course of June a considerable volume of orders was booked in anticipation of higher prices after July 1. Activity at cotton textile mills also declines in June as a rule, but this year it is reported that some mills increased output instead, following a pronounced strengthening in the market for cotton fabrics, induced by the rise in raw cotton prices during the month. The generation of electric power, which does not change substantially from May to June in most years, rose further during the first half of the month, but bituminous coal mines were somewhat less active than in May.

The volume of industrial production, as measured by the seasonally adjusted index of the Board of Governors of the Federal Reserve System, rose slightly in May. The index stood at 101 per cent of the 1923-25 average as compared with 100 in April, 93 in March, and 85 in May 1935. Steel mill operations in May, at 71 per cent of capacity, were 2½ per cent higher than in April and were at the highest point since April 1930. The rate of automobile production declined gradually during the month, and was 4½ per cent below the average of April, when assemblies reached the seasonal peak; cotton mill operations in May were 5 per cent below the high rate of the preceding month; and production of bituminous coal declined 6 per cent. Output of iron, lead, and zinc, as well as production of electric power which is not included in the Board's index, rose in May, and orders received by machine tool builders showed only a small seasonal decline following the gain in the preceding month.

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

	1935	1936		
	May	Mar.	Apr.	May
Metals				
Pig iron	47	59	71	71
Steel	54	68	81	85
Lead	52	48	56	61
Zinc	63	72	78	82
Automobiles				
Passenger cars	51	66	69	66
Motor trucks	78	107	102	101
Fuels				
Bituminous coal	72	77	89	80*p*
Anthracite coal	82	53	77	81*p*
Petroleum, crude	68	71	72	73*p*
Petroleum products	65	68	69	
Electric power	72	75	76*p*	78*p*
Textiles and Leather Products				
Cotton consumption	73	84	92	89
Wool consumption	125	98	87	93
Silk mill activity	56	55	56	54
Rayon deliveries*	74	91	94	88
Shoes	104	101	100	101*p*
Foods and Tobacco Products				
Meat packing	72	86	83	81
Wheat flour	78	89	83	81
Refined sugar deliveries	87	112	84	
Tobacco products	81	87	90	84
Miscellaneous				
Cement	45	49	58	59
Tires	53	64	83	
Newsprint paper	74	72	70	70*p*
Machine tools	60	80	96	97

p Preliminary. * For quarter ended.

Building

A slackening in some types of building activity during May resulted in a decrease of 8 per cent in total awards of building and engineering contracts in the 37 States covered by the F. W. Dodge Corporation reports. The decline was confined to the heavy engineering and other nonresidential types of building, and residential contracts showed a further increase of 5 per cent, contrary to the usual seasonal movement. Total contracts in May were about 70 per cent above those placed in the corresponding month of 1935; contracts for heavy engineering projects were more than double the volume of a year ago, and residential building contracts were 56 per cent larger than in May 1935.

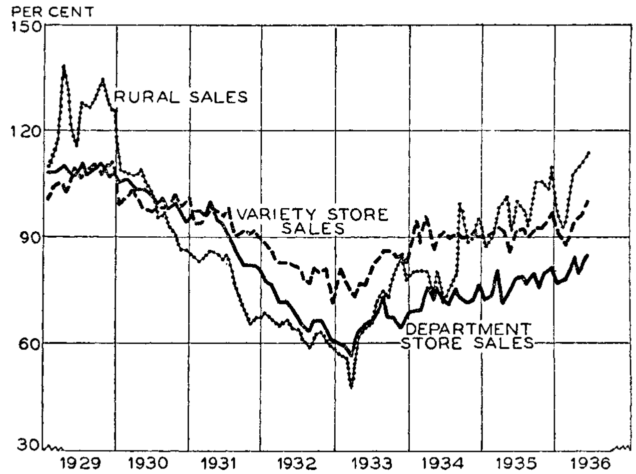
In the Second Federal Reserve District the decline in total building construction from April to May was somewhat more pronounced than in other areas due principally to a sharper reduction in contracts for public works and utilities. Residential contracts in this district, however, increased somewhat more than in the total of the 37 States.

Data for the first half of June indicate a further slight reduction in the volume of total building contracts in 37 States. Declines in the classifications embracing residential and nonresidential building other than heavy engineering work were largely offset by an increase in awards for public works and utility projects.

Indexes of Business Activity

During the first half of June some slackening appears to have occurred in the upward movement in the volume of distribution of goods that was evident in May. In the New York Metropolitan area department store sales remained well above a year ago, but appear to have advanced less than seasonally over May, and reports to the Department of Commerce on retail trade in 36 cities throughout the United States indicate that while sales continued to run higher than in the corresponding period a year ago, adverse effects were felt from drought and unusually warm weather in some parts of the country. Wholesale trade gave evidence of being well maintained during the first half of June. Little change from the May level occurred in the movement of railroad freight, either in the merchandise and miscellaneous or bulk freight groups.

Increases predominated in May among various measures of general business activity and the distribution of goods, the most pronounced gains taking place in retail trade. The accompanying diagram shows the course of three important lines of retail trade—sales of general merchandise in small towns and rural areas, department store sales in urban localities, and variety store sales—each adjusted for the usual seasonal variations, and on a 1929-1931 base. Since 1929 considerable differences have occurred in the movements of the three types of trade but in each case an unseasonal increase in May brought the index up to the highest point in several years. The index of sales of general merchandise in small towns and rural areas, which reflects to a considerable extent purchases of goods by farmers, has shown a much wider amplitude of movement than the other two; from the 1929 peak to the 1933 low point there was a drop of 66 per cent, but since that time a marked upward movement has been in progress which has resulted in the recovery of 70 per cent of the loss, and the May index reached the highest point since December 1929. The decline in variety store sales was much less severe, amounting to 35 per cent, and of this over two-thirds has been recovered. The contraction in department store sales in urban localities was greater than in variety store sales but less than in the general merchandise stores, and not much more than half of the loss has been regained; consequently, with the exception of two months in 1934, urban department store sales have been at a considerably lower level relative to the 1929-1931 volume than the other types of retail trade since the summer of 1933. The adjusted index of department store sales in May 1936 was at about the same level as in August 1931.



Indexes of Sales in Three Major Types of Retail Trade (Adjusted for seasonal variation; 1929-31 average = 100 per cent)

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

	1935	1936		
	May	Mar.	Apr.	May
Primary Distribution				
Car loadings, merchandise and misc.	58	65	66	66
Car loadings, other	60	59	67	72
Exports	47	52	52	59
Imports	69	74*r*	71	72
Distribution to Consumer				
Department store sales, U. S.	72	78	76*r*	82
Department store sales, 2nd Dist.	69	75	71*r*	76
Chain grocery sales	60	61	61	59
Other chain store sales	77	81	85	88
Mail order house sales	74	95	83*r*	90
Advertising	64	65	66	68
New passenger car registrations	59	85	81*p*	75*p*
Gasoline consumption	84	87	88	
General Business Acitivity				
Bank debits, outside New York City	65	66	66	65*p*
Bank debits, New York City*r*	43*r*	45*r*	41*r*	42*p*
Velocity of demand deposits, outside New York City	65	72	71	70
Velocity of demand deposits, New York City	41	48	43	40
New life insurance sales	54	49	49	53
Factory employment, United States	82	85	86	87*p*
Business failures	43	35	33	35
Building contracts	25	41	45	43*p*
New corporations formed in N. Y. State	55	54	53	55
General price level*	143	151	150	150*p*
Composite index of wages*	186	189	188	189*p*
Cost of living*	140	141	141	142

p Preliminary. *r* Revised. * 1913 average = 100.

Foreign Trade

Merchandise exports from the United States during May increased unseasonally and were valued at $201,000,000, while imports showed the usual slight decrease and were valued at $191,000,000. The resulting $10,000,000 export balance was the first to occur since January, and compared with an excess of imports of $5,000,000 in May of last year. Exports showed a gain of 22 per cent and imports a gain of 12 per cent over May 1935, continuing the increases of the past two years.

The value of all manufactured products exported during May remained at about the same level as in the preceding month, but accounted for considerably more than half of the increase over a year ago in total exports. Exports of finished products in a majority of cases showed larger gains over 1935 than in April; the increase over a year ago in number of motor trucks exported amounted to 73 per cent and in passenger cars to 31 per cent, although the accompanying increases in value were not as large, apparently due to the sale abroad of a larger proportion of lower priced cars this year. Notable increases over a year ago likewise occurred in exports of agricultural, industrial and electrical machinery, wood manufactures, and refined petroleum products. Foreign purchases of American cotton were slightly larger than in April, contrary to the usual seasonal tendency, and showed increases over a year ago of 22 per cent in volume and 18 per cent in value.

Among the individual imports, increases over a year ago were not as uniform in May as in most recent months. Substantial decreases in quantity and value occurred in the receipts of a number of vegetable and animal food products, and also in imports of raw silk, crude petroleum, and fertilizers. On the other hand, receipts of sugar, while seasonally less than in April, showed an increase over a year ago of 22 per cent in quantity and 55 per cent in value, the major part of which was due to an increase in sugar imports from the Philippines. Receipts of crude rubber again showed a substantial increase over a year ago. Relatively large increases likewise continued to occur in imports of nickel, wood and paper products, beverages, wool, and cotton.

Department Store Trade

During the first half of June, total sales of the reporting department stores in the Metropolitan area of New York were 9.1 per cent higher than in the corresponding period a year ago, but showed somewhat less than the usual seasonal expansion over May.

Total May sales of the reporting department stores in this district were 9 per cent higher than last year, and after making allowance for differences in the number of shopping days between this year and last, the increase in the daily rate of sales was 13 per cent, the largest increase since March 1934. The reporting department stores in all localities recorded substantial gains in sales over last year, and several localities, including New York City, Northern New Jersey, Northern New York State, Hudson River Valley District, and the Capital District, registered the largest advances in average daily sales in 2 years or more. An exceptionally large increase in sales was reported also by the Westchester and Stamford stores; the daily rate of sales in the Southern New York State department stores made the most favorable year to year comparison in almost a year; and Buffalo, Rochester, and Bridgeport stores showed considerably larger advances than in the immediately preceding months. Sales of stores in Niagara Falls and Central New York State, shown separately for the first time, were also substantially larger than a year ago. Sales of the leading apparel stores in this district were 15.3 per cent higher than last year, a larger increase than in April.

Department store stocks of merchandise on hand, at retail valuation, were slightly higher than last year for the second consecutive month. The rate of collections in the department stores was slightly lower than in May 1935.

Locality	Percentage change May 1936 compared with May 1935		Per cent of accounts outstanding April 30 collected in May	
	Net sales	Stock on hand end of month	1935	1936
New York	+ 8.2	— 0.1	50.5	50.4
Buffalo	+14.6	+ 9.6	48.4	48.1
Rochester	+ 6.3	— 5.8	46.6	47.7
Syracuse	+ 7.0	— 4.8	38.6	39.3
Northern New Jersey	+11.1	+ 5.9	43.7	41.8
Bridgeport	+ 6.9	+ 1.8	39.8	40.6
Elsewhere	+13.2	— 4.0	35.3	36.6
Northern New York State	+ 7.2	....	....	....
Southern New York State	+ 4.8	....	....	....
Central New York State	+11.2	....	....	....
Hudson River Valley District	+13.3	....	....	....
Capital District	+10.3	....	....	....
Westchester and Stamford	+33.0	....	....	....
Niagara Falls	+15.1	....	....	....
All department stores	+ 9.0	+ 0.7	47.3	46.9
Apparel stores	+15.3	+12.0	46.8	45.2

Wholesale Trade

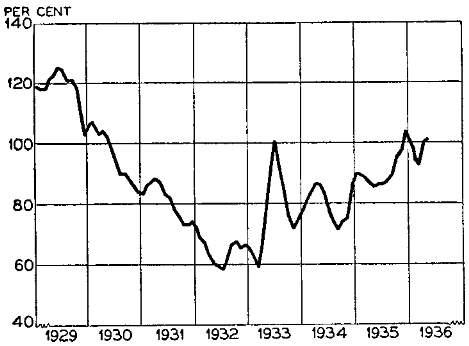
During May total sales of the reporting wholesale firms in this district averaged approximately 1 per cent lower than last year, the first decrease in over a year. The men's clothing and diamond concerns recorded the largest declines in sales in a number of months, and sales of the grocery, drug, stationery, and paper concerns made the least favorable comparisons with a year ago in 4 to 5 months. Hardware sales and yardage sales of silk goods were substantially higher than last year, but the increases reported were not as large as in April. Shoe concerns again reported a lower volume of sales than a year ago, although the decrease was not as large as in the previous month. The cotton goods and jewelry firms, however, showed sales well above last year's level, the former registering the largest gain since September 1935, and the latter recording the largest advance since May 1934.

Commodity	Percentage change May 1936 compared with May 1935		Per cent of accounts outstanding April 30 collected in May	
	Net sales	Stock end of month	1935	1936
Groceries	+ 2.4	— 9.0	94.0	87.9
Men's clothing	—20.4	......	35.7	34.4
Cotton goods	+21.7	......	39.7	40.9
Rayon and silk goods	+18.6*	......	67.1	64.4
Shoes	—10.8	......	38.2	43.9
Drugs	+ 5.5	+26.1	29.4	38.0
Hardware	+13.4	+17.3	47.3	46.4
Stationery	+ 6.6	......	58.6	59.6
Paper	— 0.2	......	49.6	61.6
Diamonds	—10.0	— 6.4	21.8	21.7
Jewelry	+46.3	+85.4		
Weighted average	— 0.8	......	56.2	55.4

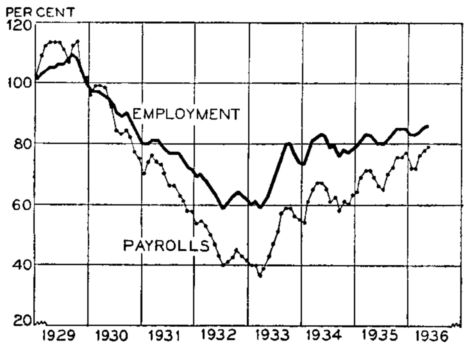
* Quantity figures reported by the National Federation of Textiles, Incorporated, not included in weighted average for total wholesale trade.

FEDERAL RESERVE BANK OF NEW YORK

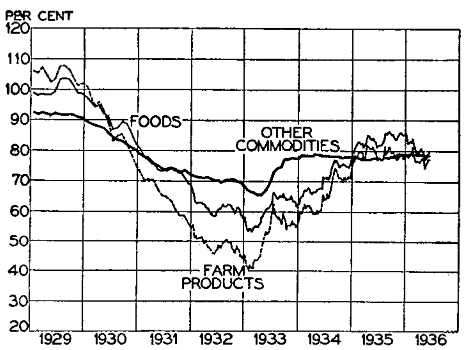
MONTHLY REVIEW, JULY 1, 1936



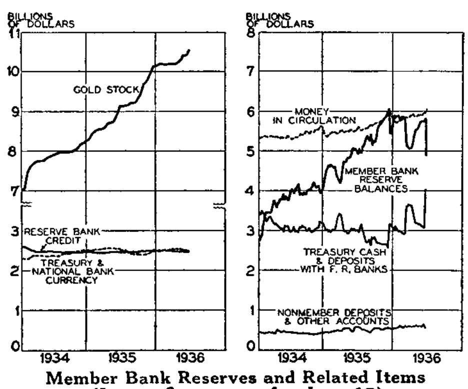
Index Number of Production of Manufactures and Minerals Combined, Adjusted for Seasonal Variation (1923-25 average = 100 per cent)



Index Numbers of Factory Employment and Payrolls, Without Adjustment for Seasonal Variation (1923-25 average = 100 per cent)



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



Member Bank Reserves and Related Items (Latest figures are for June 17)

Business Conditions in the United States

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

VOLUME of industrial production, which had increased sharply in April, was maintained in May, and there was an increase in distribution of commodities to consumers.

Production and Employment

The Board's seasonally adjusted index of industrial production in May was 101 per cent of the 1923-1925 average, as compared with 100 per cent in April. Production of durable manufactures increased further, reflecting larger output of steel and lumber, partly offset in the total by a reduction in the output of automobiles from the high level of April. At steel mills the rate of activity in May was higher than at any other time since the spring of 1930. This level has been maintained in June, reflecting in part some accumulation of steel by fabricators in advance of the effective date of recently announced price increases. Declines in production were reported for many nondurable manufactures; at woolen mills, however, activity increased. Output of bituminous coal declined from April to May, while output of crude petroleum continued in large volume.

Factory employment increased slightly between the middle of April and the middle of May, contrary to the usual seasonal tendency. Increases were reported at plants producing iron and steel products, machinery, and most other durable manufactures. Changes in employment in industries producing nondurable manufactures were largely of a seasonal nature. Factory payrolls were somewhat larger in the middle of May than a month earlier.

Total value of construction contracts awarded, according to figures of the F. W. Dodge Corporation, declined slightly from April to May. Awards for residential building continued to increase and in May, as in other months this year, were substantially larger than a year ago when residential building was first beginning to increase from the extreme low level of the depression.

Distribution

Department store sales, which usually decline at this season, increased from April to May and there was also a rise in sales at variety stores and mail order houses. Freight car loadings increased by slightly more than the usual seasonal amount.

Commodity Prices

Wholesale prices of commodities, which had declined from the middle of April to the middle of May, have advanced somewhat since that time and in the week ended June 20 were at 78.7 per cent of the 1926 average, according to the index of the Bureau of Labor Statistics. In recent weeks prices of livestock and livestock products, grains and flour, and textile raw materials and finished products have advanced. For many steel products price increases have been announced to take effect early in the third quarter.

Bank Credit

Excess reserves of member banks, after a slow increase in May and the early part of June, declined by $900,000,000 in the week ended June 17. The reduction in excess reserves was due principally to an increase in the deposits maintained at the Reserve Banks by the Treasury, which received large payments for new securities issued, as well as quarterly tax installments. At that time the Treasury began to distribute checks and adjusted service bonds to veterans and there was an increase in the demand for currency in connection with the cashing of these bonds and checks.

United States Government obligations held by reporting member banks in leading cities, which had increased somewhat in May and early June, showed a further sharp increase in the week ended June 17 in connection with the new issue of Government securities. Bank loans also increased.