MONTHLY REVIEW
of Credit and Business Conditions
Second Federal Reserve District

Federal Reserve Agent — *Federal Reserve Bank, New York* — *August 1, 1936*

Money Market in July

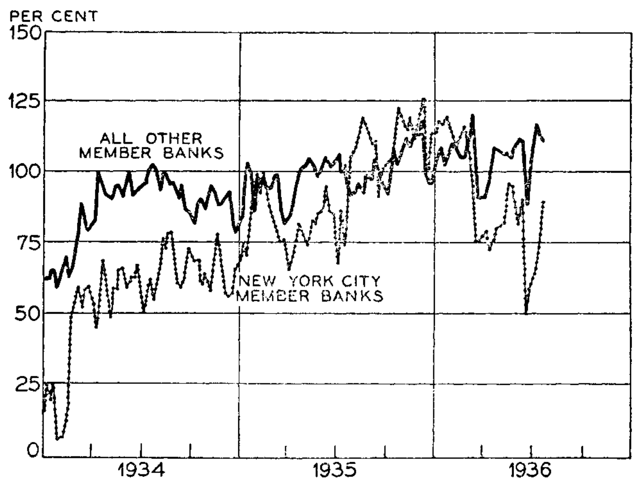
Attention in the money market since the middle of July has been focussed largely on the 50 per cent increase in member bank reserve requirements then announced by the Board of Governors of the Federal Reserve System to take effect after the close of business August 15. The announcement was followed by a brief and very moderate recession in prices of Government securities and by a slight advance in acceptance rates, but other money rates remained unchanged, and prices of corporation bonds were practically unaffected. By the end of July Government bond prices had regained most of the ground lost in the three days beginning July 15, and even at their lowest points, on July 17, they remained, on the average, higher than at any time in recent years prior to last March.

The small effect on money rates of the prospective reduction in excess reserves may be attributed in large part to a general realization of the factors in the existing reserve situation which were set forth in the statement of the Board of Governors of the Federal Reserve System which accompanied the announcement of the change in reserve requirements. The possibility of an increase in reserve requirements had been recognized, and had been a frequent topic of discussion for a number of months past, so that the market was not unprepared for the action taken. Furthermore, it had been demonstrated on several recent occasions, following Treasury financing in large volume, that large reductions in the amount of excess reserves could occur, at least temporarily, without appreciable effect on the money market. The stability of yields on long term securities, in the face of the prospective reduction in excess reserves, is attributed primarily to recognition of the fact that the volume of idle money available for employment will remain very large even after the increase in reserve requirements. Short term money rates had shown little change since the end of 1934 when excess reserves were in approximately the volume which will probably remain after the 50 per cent increase in reserve requirements.

	Dec. 31, 1934	June 30, 1936	July 29, 1936
Stock Exchange call loans	1	1	1
Stock Exchange 90 day loans	¾–1	1¼	1¼
Prime commercial paper—4 to 6 months	¾–1	¾	¾
Bills—90 day unindorsed	⅛	⅛	3/16
Customers' rates on commercial loans (Average rate of leading banks at middle of month)	1.96	1.67	1.63
Treasury securities:			
Maturing December (yield)	No yield	No yield	No yield
Maturing February 1938 (yield)	....	0.21	0.19
Average yield on Treasury notes (1-5 years)	1.13	0.78	0.77
Average yield on Treasury bonds (more than 5 years to earliest call date)	2.83	2.35	2.32
Average rate on latest Treasury bill sales 273 day issue	....	0.19	0.22
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

Since the Board's announcement there has been a gradual increase in the volume of excess reserves held by member banks and on July 29 the amount for the country as a whole was $3,050,000,000 as compared with $2,670,000,000 on July 1. For the large New York City banks excess reserves on July 29 were nearly $1,200,000,000, as compared with about $800,000,000 on July 1. The principal factor in the increase for the country as a whole was the disbursement, through the cashing of Veterans Adjusted Service bonds and other Government expenditures, of funds previously accumulated in Government balances in the Reserve Banks. The increase in member bank reserves from this source was supplemented by some retirement of currency from circulation.

The gains from both of these sources, however, were smaller than might have been anticipated, as Government expenditures were partly offset by the repayment of funds previously advanced by the Reconstruction Finance Corporation to banks, railroads, and others, and also by payments for notes of the Commodity Credit



Excess Reserves Held by Principal New York City Member Banks and All Other Member Banks, Expressed as Percentages by which Reserve Balances Exceed Reserves Required Against Member Bank Deposits (Latest figures are for July 22)

Corporation which were offered for sale on July 14. Although an unusually heavy increase in the amount of currency outstanding occurred during the latter part of June, largely in connection with the cashing of veterans bonds, the return flow of currency to the Reserve Banks after the July 4 holiday was not much greater than the usual seasonal movement. In view of the unseasonally high level of industrial activity and industrial payrolls in July, however, it appears likely that, except for the retirement of a part of the currency that was withdrawn from the Reserve Banks in connection with the cashing of veterans bonds, the return flow of currency would have been less than the usual seasonal movement.

Despite the large increase in their reserves during July, the New York City banks, near the end of the month, still had a smaller aggregate amount of excess reserves, in proportion to their reserve requirements, than other member banks throughout the country. In fact, as the preceding diagram shows, the proportion of excess reserves to requirements has been rather consistently smaller in New York City banks than in all other member banks during the past 2½ years, except in a few months in which there were heavy inflows of gold from abroad. Furthermore, the extraordinarily high level of New York balances of out of town banks constitutes a claim on a considerable part of the reserves held by the New York City banks. However, studies of the reserve position of individual member banks which have been made from time to time by the Federal Reserve System have indicated that most of the member banks throughout the country have sufficient excess reserves on deposit with their respective Federal Reserve Banks, so that it will not be necessary for them to draw heavily upon their balances with city correspondent banks in order to cover the 50 per cent increase in their requirements after August 15. In this district during the first half of July the aggregate amount by which the reserves of individual member banks, outside New York City and Buffalo, fell short of the reserves needed to cover a 50 per cent increase in requirements was less than $10,000,000. In New York City and Buffalo the shortages of the few banks lacking excess reserves sufficient to cover the increase were correspondingly small.

The July increase in excess reserves of New York City banks was caused largely by a heavy inflow of funds from other sections of the country, as was a considerable part of the preceding accumulation of excess reserves in New York. Most of the gold that has come to this country from abroad during the past two and one-half years has come in through the Port of New York, and at the outset the proceeds have been added to the reserves of the New York City banks, but the gain of funds from that source has been offset by heavy Government withdrawals of funds from New York. A large part of the financing of Government expenditures has been done in New York, and a considerable part of the proceeds of payments for Government securities purchased by banks and other investing institutions and investors in this district has been transferred out of the district to meet Government expenditures in other parts of the country. The depositing of funds expended by the Government in other parts of the country, however, resulted in accumulations of idle funds in the banks in those localities, and large amounts of such funds apparently have returned to New York, either to be added to the New York balances of out of town banks and other depositors or to be invested.

Member Bank Credit

The principal change shown by weekly reports from member banks in principal cities during the four weeks ended July 22 was a further increase of nearly $300,000,000 in adjusted demand deposits to a new high level. This increase, which occurred almost entirely outside New York City, probably reflected to a considerable extent the proceeds of Government expenditures, including funds paid to veterans through the cashing of their Adjusted Service bonds.

In general, the loans and investments of reporting banks showed no material change. Government security holdings of the New York City banks showed a net decrease of $113,000,000 in the four weeks ended July 22, but there was an almost equal increase in other reporting banks, largely in Chicago. This shift of Government securities occurred largely through the failure of the New York City banks to obtain allotments of the weekly issues of Treasury bills in sufficient volume to offset their maturities, owing to a special demand for Treasury bills which resulted in unusually high bids from other quarters for a few weeks.

The other principal change shown by the weekly member bank reports was a further decrease of $108,000,000 in the volume of security loans. Most of this decrease occurred in New York City and probably reflected largely the liquidation of borrowings by dealers in Government and other securities which had shown a net increase of about the same amount in the preceding four week period.

Bills and Commercial Paper

Following the announcement of the prospective increase in reserve requirements of member banks, there was a moderate increase in the amount of bills offered to the discount market, but as the investment demand for bills continued active, dealers' portfolios showed no material change. On Friday, July 17, however, some dealers advanced their rates for one to four month bills by 1/16 per cent and on Monday, July 20, the higher rates were established by the remaining dealers. Very few bills were offered to the dealers at the new rates, and the bill market again became very quiet. As the month closed, the rates reported were ¼ per cent bid, 3/16 per cent offered for maturities up to 90 days, 5/16 per cent bid, ¼ per cent offered for 4 month bills, and ⅜ per cent bid, 5/16 per cent offered for 5 and 6 month acceptances.

As is shown in the following table, the volume of bills outstanding at the end of June amounted to $316,000,000, a decline of $14,000,000 from May, and the smallest total since the monthly records on acceptance volume were inaugurated in 1925. The shrinkage in volume compared with a year previous was the smallest in more than two years, however. The decline for the month occurred principally as a result of further decreases in export bills and domestic warehouse credits. Holdings of acceptances by accepting institutions were reduced by approximately $21,000,000 during June, and represented 87 per cent of all bills outstanding, as compared with 90 per cent of the total in May.

(Millions of dollars)

Type of Acceptance	June 1935	May 1936	June 1936
Import	102	110	107
Export	94	82	74
Domestic shipment	9	9	9
Domestic warehouse credit	48	46	39
Dollar exchange	1	1	2
Based on goods stored in or shipped between foreign countries	89	82	85
Total	343	330	316

In the commercial paper market bank investment demand for business notes continued active during July, but new drawings, which included seasonal borrowings by grain and milling concerns, remained small. The prevailing rate for average grade prime four to six month paper remained at ¾ per cent, although there were some sales of especially high grade names of short maturity at slightly lower levels when this class of paper became available. Commercial paper dealers had a total of paper outstanding at the end of June amounting to $168,700,000, a volume 9 per cent smaller than a month ago, but 6 per cent higher than a year ago.

Security Markets

During the first two weeks of July, the average price of United States Treasury bonds showed a further increase of more than ¼ point, high grade corporation bonds an average rise of about ½ point, and medium grade corporate issues an advance of 1¼ points. Railroad issues were especially strong, apparently reflecting the influence of increased freight traffic figures and improved earnings reports.

The announcement by the Board of Governors of the Federal Reserve System that reserve requirements of member banks against deposits would be increased by 50 per cent on August 15 had relatively little effect on the bond market as a whole. The principal effect was a temporary recession in the prices of Treasury bonds, but even in the case of these securities the decline from the high levels which prevailed just prior to the Board's announcement averaged only between ⅜ and ½ point. After this decline, which was over a three day period, the Government security market steadied and prices subsequently recovered the greater part of the previous recession. High grade corporation bonds were affected hardly at all by the prospective increase in reserve requirements, and the advance in less high grade issues continued practically without interruption, in keeping with the advance in stock prices. For the month as a whole, prices of medium grade bonds were up about 2 points on the average, and in the case of a number of the railroad issues the advances were considerably larger.

In the shorter term divisions of the Government security market, the average yield on 1 to 5 year Treasury notes declined from 0.78 per cent at the end of June to 0.72 per cent on July 14, advanced to 0.84 per cent by the 17th, and then receded to 0.77 per cent, thus showing a net decline of 0.01 per cent for the month. The average rate on weekly Treasury bill sales, which had declined from 0.19 per cent on the issue of July 1 to 0.07 per cent on the next two weeks' sales, due to a temporary special demand for the bills in the Chicago market, increased to 0.22 per cent for the issue dated July 29.

A further advance in stock quotations during July raised the general average of share prices above the earlier highs of 1936, which were reached in April by the industrials and in February by the railroads and public utilities. Industrial stocks as a group reached the highest level since September 1930, while for the rails and utilities current prices are the highest since July 1933. The advance in stock prices during recent months has by no means been uniform among all issues or even all groups of companies. Stock prices for a number of groups of industrial companies, including leather, meat packing, textiles, and coal, have in fact shown net declines since the first of the year, while net increases have ranged from small gains in groups such as automobile accessories, foods, steel, electrical equipment, and oil, to the relatively large price advances in the stocks of the automobile, copper, shipping, and agricultural machinery groups of companies.

New Financing

The total of new securities offered in July, according to a preliminary tabulation of publicly issued and privately placed securities, amounted to $600,000,000, an amount about $200,000,000 smaller than in June but approximately $200,000,000 above the May total. The largest single offering during July, announced on the 14th, was $150,000,000 of ½ per cent 6 month collateral-trust notes of the Commodity Credit Corporation, secured by collateral notes backed by the pledge of commodities. The purpose of this issue was to refinance debt of the Commodity Credit Corporation to the Reconstruction Finance Corporation. There were also offerings of Federal Intermediate Credit Bank debentures amounting to $17,000,000, and a number of small State and municipal issues aggregating $49,000,000.

Public utility issues during July amounted to about $200,000,000, industrial issues $60,000,000, financial and investment company issues $60,000,000, and railroad issues $60,000,000, making a total for private corporation financing of about $380,000,000. The largest of the corporate issues publicly offered during the month was $35,000,000 Commercial Investment Trust Corporation 15 year 3½ per cent debentures priced to yield 3.37 per cent. The Narragansett Electric Company $34,000,000 issue of 30 year 3½ per cent first mortgage bonds, priced to yield 3.35 per cent, was the largest of the utility offerings. Another of the large utility issues of the month was The New York Edison Company, Inc., issue of $30,000,000 of 3¼ per cent refunding bonds maturing April 1, 1966, which were priced to yield 3.14 per cent.

The July issues included about $80,000,000 of securities placed privately. Among these issues were $40,000,000 Kansas City Power and Light Company refunding bonds, reported late in the month to have been sold to a group of insurance companies. Similarly, $16,700,000 Long Island Lighting Company refunding bonds and $10,300,000 refunding bonds of its subsidiary, the Queens Borough Gas and Electric Company, were reported to have been placed privately with a group of large insurance companies and a local savings bank. A $10,900,000 note of the New York, Chicago and St. Louis Railroad Company also was sold privately by the Reconstruction Finance Corporation to a New York City bank.

The major portion of the past month's security issues continued to be directly or indirectly connected with refunding operations. In some cases the proceeds of the issues are to be used to repay bank loans incurred previously for the retirement of outstanding security issues, but more generally the July issues were to raise funds in advance of the retirement of outstanding issues.

Near the close of the month, General Motors Acceptance Corporation filed a registration statement with the Securities and Exchange Commission covering $100,000,000 of issues, one-half in the form of 10 year 3 per cent debentures, and one-half in 15 year 3¼ per cent debentures. Except for the $110,000,000 financing of the Brooklyn-Manhattan Transit Corporation registered last April, this is the largest single registration since the Securities Act became operative in July 1933.

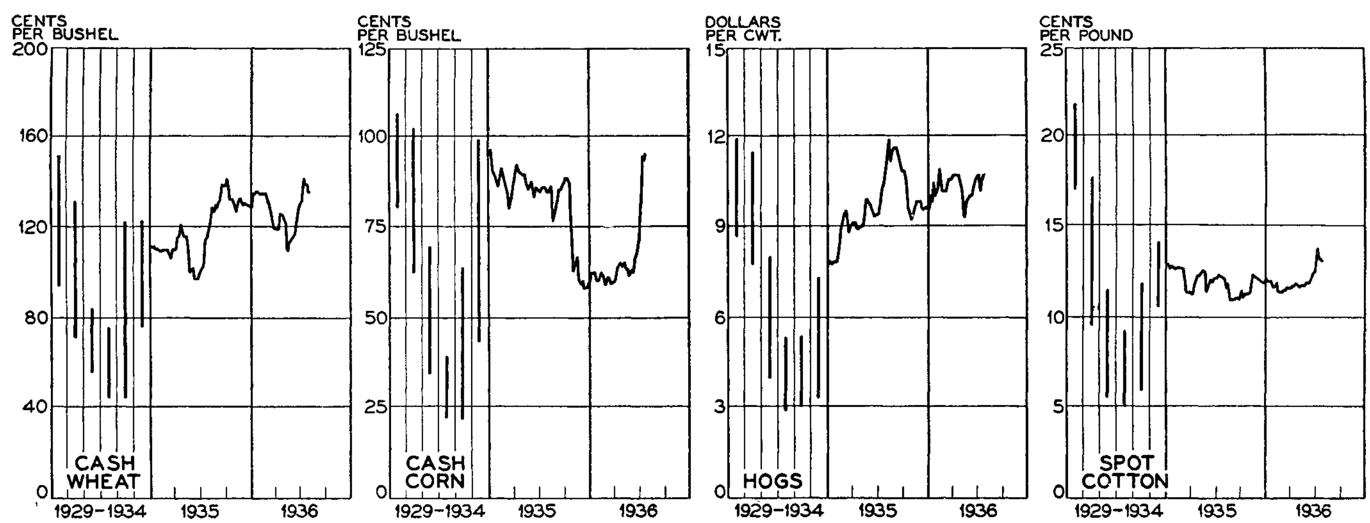
Commodity Prices

Continued unfavorable weather conditions were reflected in further sizable advances in the prices of a number of agricultural commodities in the first part of July. Subsequently a break in the drought in some sections of the country resulted in moderate price recessions, but near the end of the month there was a renewed rise in prices. As the accompanying diagram indicates wheat prices rose steadily through June and early July from the low of the year reached at the middle of May. Following the publication of the Government crop report on July 10, the cash price of Number 1 Northern wheat at Minneapolis rose to $1.42⅞ a bushel, the highest price since October 1935, and with that exception the highest since August 1929. On the basis of July 1 condition, a total wheat harvest of 638,400,000 bushels was estimated, 15,000,000 bushels higher than last year, but considerably below June estimates, and further deterioration in the spring wheat crop was reported between the date of estimate and the publication of the report. Later in the month, wheat prices fluctuated irregularly and the Minneapolis price closed the month at $1.41, or 15⅝ cents above the end of June; wheat futures at Chicago showed a net advance of 16½ cents for the month.

Corn prices, which had remained fairly steady through the winter and spring, have advanced rapidly in recent months as weather conditions became progressively worse during the growing season. Corn crop prospects on July 1 were estimated by the Department of Agriculture at 2,245,000,000 bushels, or 47,000,000 below last year's crop, and further deterioration occurred during July. Spot corn prices rose approximately 70 per cent from the first of June to the end of July reaching $1.01 a bushel, the highest price since August 1930. The unfavorable corn and pasture situation was reflected in a rise in hog prices, shown in the diagram, and also in the price of steers. Owing to the lack of water and the high price of feed, however, increased marketings occurred which resulted in a temporary decline in livestock prices around the middle of July, but a recovery followed, and both hog and steer prices closed the month at approximately the same level as the end of June.

Continuing the upward movement of May and June, spot cotton prices rose 54 points on July 8 and cotton futures at New York advanced 61 points, and further advances on the following days brought the spot price to 13.65 cents, the highest price since August 1934. This sharp gain followed the publication of the cotton crop report by the Department of Agriculture indicating an acreage of 30,621,000, which, although 10 per cent higher than last year, was 26 per cent below the 1928-32 average, and was lower than had been anticipated. Furthermore, the Government announced that it was completely out of the futures market for the first time in six years. Subsequently the price receded somewhat but closed the month with a net gain of 51 points.

Among the nonagricultural commodities also, some increases were shown in July, and the Bureau of Labor Statistics weekly index of prices of all commodities other than farm products and foods rose 0.7 point to the highest level in 5½ years. Raw silk advanced 10 cents to $1.71½ a pound. Domestic copper rose 25 points to 9.75 cents a pound to the highest price since April 1931, and net gains also occurred in tin and scrap steel.



Movements of Prices of Leading Agricultural Commodities (Range of prices for 1929-1934; weekly quotations subsequently)

Foreign Exchanges

The month of July was a period of comparative quiet in the foreign exchange markets. Turnover was considerably smaller than in recent previous months, and rate movements were of minor proportions. The inward movement of capital to this country from abroad was reduced to the smallest proportions in several months; foreign investors continued their purchases of American securities, but there was no further accumulation of foreign deposits with banks in this market.

Following a recovery in the gold bloc exchanges in the latter part of June, these currencies continued to be quoted in this market above their lower gold points during July, although showing small net recessions for the month. The French franc, after touching a high of $0.0664½ on June 27, was quoted in the vicinity of $0.0663 during the early part of July. After receding on the 10th and 11th to $0.0660½, the rate reverted promptly to its previous level, but again developed a gradual downward tendency in the second half of the month, closing at $0.0660⅜ on July 30. The dollar quotations for the guilder and the Swiss franc moved about in keeping with the Paris-New York rate.

The pound sterling showed marked stability during July. The pound-dollar rate ranged between $5.01⅝ and $5.03, being quoted near the lower figure in the last few days of the month.

Closing Cable Rates at New York

Exchange on	July 31, 1935	June 30, 1936	July 30, 1936
Belgium	$ .1692	$ .1691	$ .1688
Denmark	.2214	.2240	.2242
England	4.9562	5.0163	5.0163
France	.06626	.06632	.06604
Germany	.4037	.4034	.4028
Holland	.6802	.6814	.6800
Italy	.0821	.0787	.0789
Norway	.2491	.2521	.2522
Spain	.1373	.1375	.1369
Sweden	.2557	.2587	.2589
Switzerland	.3275	.3275	.3268
Canada	.9988	.9975	.9998
Argentina	.3304	.3344	.3344
Brazil	.0857	.0859	.0861
Uruguay	.8040	.8000	.8000
Japan	.2923	.2939	.2931
India	.3747	.3792	.3791
Shanghai	.3800	.3013	.3019

Central Bank Rate Changes

Following the two reductions in June, which brought the Bank of France discount rate down from 6 to 4 per cent, that bank reduced its rate further to 3 per cent, effective July 10. The Netherlands Bank, which lowered its discount rate from 4½ to 3½ per cent in two steps in June, reduced its rate to 3 per cent, effective July 7.

Effective July 1 the discount rate of the Bank of Lithuania was lowered from 6 to 5½ per cent. It is also reported that the rate of the National Bank of Albania was reduced from 7½ to 7 per cent, effective June 15.

Gold Movement

Total imports of gold at New York during July amounted to $8,800,000, of which $6,000,000 came from India, $2,100,000 from Colombia, $500,000 from Russia, and $200,000 from England. On the West Coast, $1,400,000 of gold was received from Australia and $200,000 from China.

Newly mined and scrap gold continued to be received at the mints and assay offices in moderate volume and in addition there was a net decrease of $2,300,000 in gold held under earmark for foreign account at this bank. As a result of all transactions in July the monetary gold stock of the United States was increased by approximately $35,000,000, a considerably smaller gain than in the previous two months.

Foreign Trade

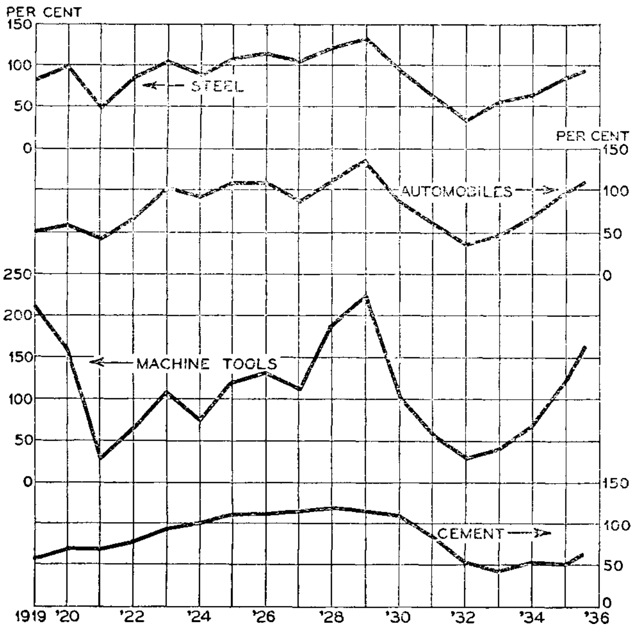
During June merchandise imports increased contrary to the usual seasonal tendency, while exports showed somewhat more than the customary seasonal recession from the comparatively large May total. Imports amounted to $192,000,000, or 23 per cent more than a year ago, and exports were valued at $185,000,000, an increase of 9 per cent. The resulting $7,000,000 excess of imports for the month was the fourth import balance to occur since January.

In the case of imports, increases over June 1935 continued widespread among individual commodities. The gain in sugar receipts, which were larger in quantity than in any June since 1929, accounted for one-fourth of the increase over a year ago in the value of total imports. Material gains occurred also in receipts of crude rubber, unmanufactured wool, wood pulp, tin, wheat, and meat products, while imports of raw silk and crude petroleum continued to be smaller than in 1935. The increase in exports over a year ago was due chiefly to larger shipments abroad of unmanufactured tobacco, wood and paper products, agricultural and industrial machinery, iron and steel products, and aircraft. Exports of raw cotton, crude and refined petroleum, and automobiles were smaller than a year ago.

For the year ended June 30, 1936, exports aggregated $2,413,000,000 and imports $2,218,000,000, leaving an export balance of $195,000,000. This excess of exports compares with $335,000,000 in the preceding fiscal year, and was the smallest since the fiscal year 1922-1923.

Production

A considerable further rise in the general level of industrial activity, after allowance for the usual seasonal changes, appears to have occurred in July as a result of the maintenance of high rates of production in many important lines which ordinarily curtail operations during the summer. Steel mills operated in the neighborhood of 70 per cent of capacity for the third successive month, whereas in most years output of steel has been reduced substantially in July. Operations were supported by work on orders previously accepted at second-quarter prices, and by some business placed in anticipation of possible labor difficulties, but it was also apparent that the requirements of steel consuming industries for current operations were unusually large. Automobile plants, although slackening assemblies of cars somewhat over the course of the month, maintained production at a rate apparently higher than in any other July except July 1929, in order to meet an unexpectedly large volume of orders and to build up stocks to cover sales during the period when assembly lines will be stopped for retooling



Yearly Output of Four Important Industries Since 1919, Relative to 1923-25 Average (Data for first six months of 1936 on yearly basis used to show comparison with preceding years)

for 1937 models. During the first part of July sales of cotton goods, stimulated by rising prices, continued at a high level, and although the sales volume fell off later in the month production of cotton textiles was reported to have been maintained at an unseasonally high rate throughout the month. The generation of electric power rose further during the first half of July while bituminous coal output was approximately unchanged.

The seasonally adjusted index of industrial production of the Board of Governors of the Federal Reserve System advanced 2 points during June to 103 per cent of the 1923-25 average, the highest level for any month, with one exception, since April 1930. Steel output, partly as a result of orders received in anticipation of the advance in prices, was virtually unchanged, although the summer contraction is usually in progress at this time of year, and automobile production declined only 5 per cent from May. An unusually high level of operations was also maintained in cotton mills; daily mill consumption of cotton, which indicates the rate of manufacture of cotton textiles, was unchanged from May, and sales under the stimulus of rising prices of cotton and cotton goods were reported to have been in excess of production. Orders received by machine tool manufacturers were slightly larger than in May, and were apparently the largest for June of any year except 1929 in the seventeen year period from 1920 to date. Small increases occurred in operations at zinc smelters, meat packing plants, wheat flour mills, and mills producing newsprint paper. The rate of electric power production rose seasonally, and bituminous coal output was substantially unchanged.

The extensive recovery that has occurred in the manufacturing of certain important types of durable goods is evident in the accompanying diagram. Data for the first half of 1936 have been adjusted to an annual basis to afford a comparison with annual data for preceding years back to 1919. The rate of steel production, which in 1932 was less than one-fourth of the 1929 level, has reached three-quarters of the 1929 rate, recovering two-thirds of the decline. The production of automobiles has come closest to the 1929 peak, having recovered three-quarters of its decline to within 18 per cent of the 1929 output. Automobile production during the first half of 1936 was at a rate comparable to that of 1928, when output was next to the largest on record.

Machine tool orders, the only one of the four series measured in dollar amounts rather than physical units, dropped in 1932 to only an eighth of the 1929 dollar volume, but the subsequent recovery has been unusually rapid and nearly 70 per cent of the loss has been regained. The level of orders received during the first six months of the year has been exceeded in only three years in the 1919-35 period. The last line in the diagram—cement production—reached its low point, with building operations, in 1933, and like building, has recovered less than certain other important industries producing durable goods, though it has advanced a quarter of the way from the 1933 low point toward the 1928 peak.

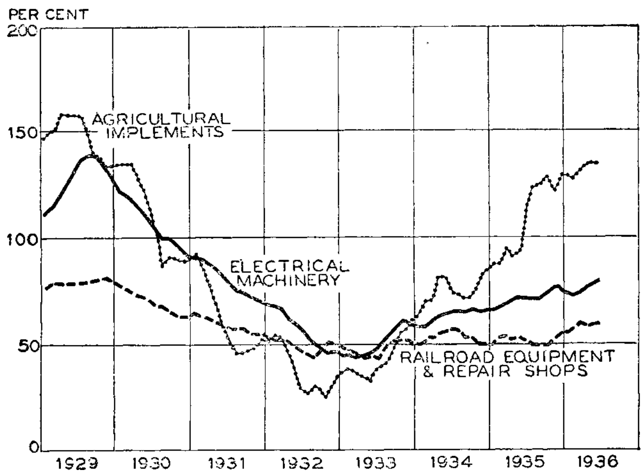
(Adjusted for seasonal variations and usual year to year growth)

	1935	1936		
	June	April	May	June
Metals				
Pig iron	45	71	72*r*	75
Steel	53	81	85	91
Lead	48	56	61	59
Zinc	67	78	82	86
Automobiles				
Passenger cars	58	69	66	69*p*
Motor trucks	102	102	101	113*p*
Fuels				
Bituminous coal	85	89	79	80*p*
Anthracite coal	112	77	81	78*p*
Petroleum, crude	69	72	71	71*p*
Petroleum products	67	69	69	..
Electric power	74	77	78*p*	78*p*
Textiles and Leather Products				
Cotton consumption	71	92	89	93
Wool consumption	129	87	98*r*	109*p*
Silk mill activity	55	56	54	56*p*
Rayon deliveries*	85	94	88	98*p*
Shoes	97	100	103*p*	98*p*
Foods and Tobacco Products				
Meat packing	67	83	81	84
Wheat flour	85	83	81	89
Refined sugar deliveries*r*	71*r*	80*r*	73*p*	..
Tobacco products	81	90	84	83
Miscellaneous				
Cement	44	58	59	..
Tires	50	83	80	..
Newsprint paper	73	70	70	74*p*
Machine tools	76	96	97	99

p Preliminary *r* Revised * For quarter ended

Employment and Payrolls

Factory employment in New York State, which had increased somewhat from March to May instead of showing the usual seasonal reduction, declined slightly more than is usual in June, and payrolls showed approximately the average decline for that month. Seasonal reductions in working forces in the clothing and textile groups were largely offset by employment gains in the metals and machinery, building material, and food industries. Increased employment was reported in all of the up-State industrial districts with the exception of Syracuse where strike conditions accounted for a sharp reduction in



Seasonally Adjusted Indexes of Employment in Certain Industries (1923-25 average = 100 per cent)

working forces. Employment in New York City, which is influenced to a considerable extent by the importance of the clothing and allied industries, was somewhat lower in June than in May.

For the United States as a whole private employment in both manufacturing and nonmanufacturing industries, covered by reports to the Department of Labor, increased for the fourth consecutive month in the period from May 15 to June 15, but the gains in the last two months were much smaller than those reported in March and April. Factory employment advanced contra-seasonally in June for the second month raising the seasonally adjusted index to the highest point since September 1930. The increase in the number of workers was again concentrated in the durable goods group of industries, and employment in several important subgroups such as blast furnaces, steel works, rolling mills, foundries and machine shops reached the highest levels since 1930.

The course of employment since 1929 in three important durable goods industries—agricultural implements, electrical machinery, and railroad equipment and repair shops—is shown in the accompanying diagram. Each series has been adjusted for the usual seasonal variations. Although the agricultural implement industry reduced its working forces more drastically in the period from 1929 to 1932 than the other industries shown, it has since experienced a more rapid recovery, and about 90 per cent of the average number of employees in 1929 are now at work. Employment in the electrical machinery industry also has increased considerably from its low point in 1933, but is still about 40 per cent below the 1929 average. The combined working forces in the railroad equipment and repair shop industries showed less decline than was the case in the other two industries, probably due to the necessity of maintaining existing equipment, as the building of new freight cars and locomotives dropped to an extremely low level, and only a moderate recovery has occurred thus far.

Among the nonmanufacturing industries, increased employment from May to June was reported in 11 of the 16 groups surveyed by the Department of Labor. A further large gain in employment in private building construction and relatively small increases in the number of workers in retail trade and in the public utilities were offset in part by decreased employment at coal mines.

Building

In the New York and Northern New Jersey area contracts for building and engineering projects awarded during June were 16 per cent larger than in May and more than 70 per cent larger than in June 1935. Residential contracts advanced for the fourth consecutive month and were in greater volume than in any month since November 1931, while contracts for heavy engineering work recovered sharply from the decline of the two preceding months and were more than three times as high as in June 1935. The June increases in these classifications were slightly offset, however, by a reduction in contracts for nonresidential work other than the heavy engineering type. For the first half of 1936 total contracts were nearly 75 per cent higher than in the same period of 1935. Heavy engineering construction showed the greatest expansion with an increase of 146 per cent, other types of nonresidential work advanced by approximately 65 per cent, and contracts for residential building were 44 per cent above those for the first six months last year.

For the 37 States covered by the F. W. Dodge Corporation report contracts in June were 8 per cent higher than in May and 57 per cent above the total for June 1935. Residential contracts advanced 5 per cent further in June to the highest level reached in the past five years, while awards for heavy engineering projects were 26 per cent higher than in May and more than double their volume at this time last year. Other types of nonresidential work, however, declined slightly from May to June. For the first six months of 1936 total contracts were approximately 78 per cent above those placed in the first half of 1935, each major classification of building recording a substantial increase.

Data for the first half of July indicate a further increase in the volume of total building contracts, average daily awards being approximately 17 per cent above the rate maintained in June. Residential contracts declined considerably less than is customary at this time of the year, contracts for public works and utility projects showed a pronounced contra-seasonal rise, and other nonresidential contracts advanced more than usually. The total volume of contracts placed was twice as high as in the corresponding period last year.

Indexes of Business Activity

According to available weekly data the distribution of goods in the first half of July compared favorably with June. Shipments of merchandise and miscellaneous freight over the railroads increased somewhat, and the movement of bulk commodities was also higher, due largely to a large increase in grain shipments and to an unseasonal rise in loadings of livestock, reflecting forced marketings induced by drought conditions. Reports to the Department of Commerce from 36 cities throughout the country indicated considerable increases in retail sales of summer clothing and various vacation items, and wholesale trade became more active as business in fall merchandise got under way. In the New York Metropolitan area, however, department store sales appeared to have declined somewhat more than seasonally, accompanying exceedingly hot weather.

June indexes of business activity are shown in the following table.

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

	1935	1936		
	June	April	May	June
Primary Distribution				
Car loadings, merchandise and misc.	59	66	66	67
Car loadings, other	64	67	72	70
Exports	53	52	59	53*p*
Imports	76	72*r*	72	81*p*
Distribution to Consumer				
Department store sales, U. S.	76	76	83*r*	82
Department store sales, 2nd Dist.	70	71	76	74
Chain grocery sales	61	61	59	60
Other chain store sales	85	85	88	92
Mail order house sales	80	83	90	90
Advertising	58	66	68	65
New passenger car registrations	61	80	79*p*	85*p*
Gasoline consumption	77	88	87	..
General Business Activity				
Bank debits, outside New York City	65	66	65	67*p*
Bank debits, New York City	44	41	42	43
Velocity of demand deposits, outside New York City	66	71	70	73
Velocity of demand deposits, New York City	45	43	40	44
New life insurance sales	55	49	53	55
Factory employment, United States	81	86	87	88*p*
Business failures	44	33	35	33
Building contracts	31	45	42	43
New corporations formed in N. Y. State	59	53	55	57
General price level*	144	150	150	152*p*
Composite index of wages*	188	188	190	190
Cost of living*	140	141	142	142

p Preliminary *r* Revised * 1913 average=100

Department Store Trade

During the first half of July, sales of the reporting department stores in the Metropolitan area of New York were 13.1 per cent higher than in the corresponding period a year ago, but sales appear to have declined somewhat more than seasonally from the June level, accompanying extremely hot weather. Reporting stores in New York and Brooklyn showed a 10.8 per cent increase over a year ago, while reporting stores in Northern New Jersey had a 28.0 per cent increase in sales, attributable in part to the reduced volume of sales in July 1935 on the initiation of the sales tax in New Jersey.

In June total sales of the reporting department stores in this district were 10.7 per cent higher than last year. The increase in total sales was larger than that shown in May, but after allowing for differences in the number of shopping days between this year and last, the increase was smaller than in May. Department stores in most localities reported gains in sales over last year, but the increases in the daily rate of sales were not as large as in the previous month. Sales of stores in the Capital District and in Syracuse, Northern New Jersey, and Southern New York State showed the least favorable comparisons in average daily sales in a number of months. Sales of the leading apparel stores in this district were 15.6 per cent higher than last year, but on an average daily basis the increase was less than that reported in May.

During the first half of 1936, total sales of the reporting department stores in this district were 8.9 per cent higher than in the corresponding period of last year, whereas during the first six months of 1935 sales were 1.8 per cent lower than in 1934.

Locality	Percentage change from a year ago			Per cent of accounts outstanding May 31 collected in June	
	Net Sales		Stock on hand end of month		
	June	Jan. to June		1935	1936
New York	+13.0	+ 9.4	0	49.2	52.5
Buffalo	+17.1	+10.9	+10.1	47.3	50.2
Rochester	+11.2	+ 7.6	— 4.3	46.3	51.0
Syracuse	+ 1.8	+ 7.8	— 2.6	36.7	40.1
Northern New Jersey	+ 1.3	+ 7.9	+12.1	42.7	45.3
Bridgeport	+ 9.1	+ 7.5	+ 5.3	38.2	41.7
Elsewhere	+ 6.1	+ 6.7	— 2.9	33.0	37.1
Northern New York State	+ 5.2	+ 1.1	......	....	....
Southern New York State	— 1.2	+ 2.1	......	....	....
Central New York State	+ 9.5	......	......	....	....
Hudson River Valley District	+13.1	+ 9.4	......	....	....
Capital District	+ 5.8	+ 5.4	......	....	....
Westchester and Stamford	+ 4.1	+11.7	......	....	....
Niagara Falls	+ 8.3	......	......	....	....
All department stores	+10.7	+ 8.9	+ 1.7	45.8	49.0
Apparel stores	+15.6	+16.7	+ 9.3	42.9	44.4

Wholesale Trade

Total June sales of the reporting wholesale firms in this district averaged 10 per cent higher than last year, the largest increase since March. Sales of nearly all of the reporting lines rose substantially over a year ago. Yardage sales of silk goods showed the largest advance since July 1933, jewelry sales the most pronounced increase since May 1934, and sales of the grocery, drug, paper, cotton goods, and shoe firms made the most favorable year to year comparisons in eight months to a year. The diamond concerns registered the largest increase in sales since last February, and the hardware and stationery firms recorded larger advances in sales than in May. Sales of men's clothing concerns remained below a year ago, but the decrease was smaller than in the previous two months.

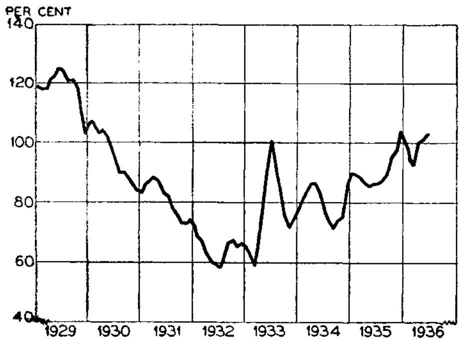
For the first 6 months of 1936, total sales of the reporting wholesale concerns in this district averaged 8.4 per cent higher than in the corresponding period of 1935, as compared with an increase of only 0.4 per cent between the first half of 1934 and 1935.

Commodity	Percentage change June 1936 compared with June 1935		Per cent of accounts outstanding May 31 collected in June		Percentage change in net sales First six mos. 1936 from 1935
	Net sales	Stock end of month	1935	1936	
Groceries	+ 9.6	— 8.4	90.4	90.4	+ 3.7
Men's clothing	—10.0	......	40.8	45.4	+10.7
Cotton goods	+22.4	......	40.0	43.0	+15.2
Rayon and Silk goods	+41.0*	......	59.3	65.0	+ 2.4*
Shoes	+19.8	......	41.4	43.0	— 3.1
Drugs	+16.6	+25.7	22.9	32.8	+11.8
Hardware	+13.8	+14.2	48.9	48.4	+ 9.9
Stationery	+10.6	......	59.4	60.6	+10.1
Paper	+15.9	......	49.2	51.8	+ 4.8
Diamonds	+27.1	+ 3.6	25.7	28.5	+24.8
Jewelry	+54.3	+94.2			+36.9
Weighted average	+10.0	......	55.7	58.4	+ 8.4

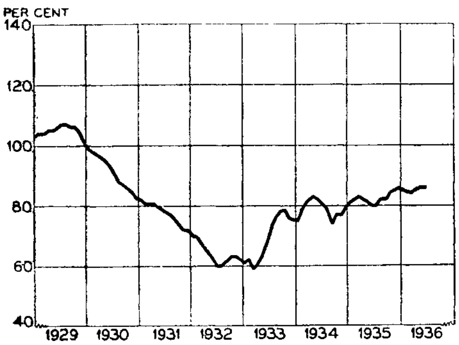
* Quantity figures reported by the National Federation of Textiles, Incorporated not included in weighted average for total wholesale trade.

FEDERAL RESERVE BANK OF NEW YORK

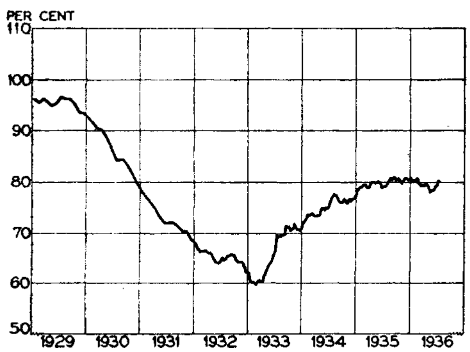
MONTHLY REVIEW, AUGUST 1, 1936



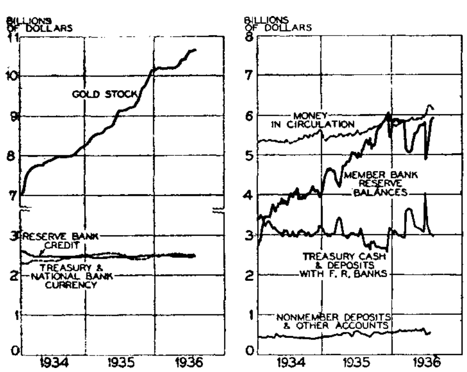
Index Number of Production of Manufactures and Minerals Combined, Adjusted for Seasonal Variation (1923-25 average = 100 per cent)



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



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



Member Bank Reserves and Related Items (Latest figures are for July 22)

Business Conditions in the United States

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

Volume of production, employment, and trade was sustained in June at the May level, although usually there is a decline at this season. Wholesale prices of commodities advanced between the middle of May and the third week of July, reflecting in part the effects of the drought.

Production and Employment

The Board's seasonally adjusted index of industrial production increased from 101 per cent of the 1923-25 average in May to 103 per cent in June. Steel production continued at about 70 per cent of capacity in June and the first three weeks of July, although a considerable decline is usual at this season. Output of automobiles declined seasonally. The cut of lumber showed a seasonal rise in June following a substantial increase in the preceding month. Production increased at woolen mills and was sustained at cotton mills where a decline is usual in June. Output of foods increased.

Factory employment and payrolls showed a slight increase between the middle of May and the middle of June, contrary to seasonal tendency. Steel mills and plants producing machinery employed more workers, and at automobile factories there was less than the seasonal decline. At textile mills employment was unchanged, although a decline is usual in June, while the clothing industries reported a decrease in the number employed.

Total value of construction contracts awarded, as reported by the F. W. Dodge Corporation, increased somewhat from May to June and continued to be substantially larger than a year ago. There was a further increase in residential building.

Agriculture

Crop estimates by the Department of Agriculture on the basis of July 1 conditions indicated little change from last year for wheat and corn and considerable declines for oats, hay, potatoes, and tobacco. Since July 1 prospects have been reduced by extreme drought over wide areas. Cotton area in cultivation on July 1 was estimated by the Department of Agriculture at 30,600,000 acres compared with 27,900,000 acres last year and an average of 41,400,000 acres in the years 1928-1932.

Distribution

Freight car loadings increased seasonally in June, and the distribution of commodities to consumers was maintained at the May level. In recent months retail trade as measured by sales of automobiles and by the volume of business of department, variety, and mail order stores has expanded considerably.

Commodity Prices

The general level of wholesale commodity prices, as measured by the index of the Bureau of Labor Statistics, advanced by about 3 per cent between the middle of May and the third week of July, following a decline of about the same amount earlier in the year. Prices of wheat, flour, feed grains, and dairy products advanced sharply, owing primarily to the drought, and there were increases also in the prices of hogs and pork, cotton and cotton textiles, silk, rubber, copper, and finished steel.

Bank Credit

Gold imports, which had been in large volume in May and June, declined in July. Funds held by the Treasury as cash and on deposit with Federal Reserve Banks declined, as the result of disbursements in connection with the cashing of veterans' service bonds. Consequently reserve balances of member banks, which had declined in June, rose once more to their previous level.

Total loans and investments of reporting member banks in leading cities, after increasing sharply at the end of May and the early part of June, declined somewhat in the four weeks ended July 15, reflecting largely a reduction in loans to security brokers and dealers in New York City. Balances held for domestic banks increased by $800,000,000 during the period, as a consequence of redeposit with reporting banks of a considerable part of funds acquired by banks through Treasury disbursements.