MONTHLY REVIEW
of Credit and Business Conditions
Second Federal Reserve District

Federal Reserve Agent *Federal Reserve Bank, New York* *October 1, 1936*

Money Market in September

The gold movement from France to the United States, which started early in August, continued at an increased rate after the first few days of September, and in the third week of the month accelerated rapidly until daily engagements of gold in Paris for shipment to the United States reached a maximum of more than $56,000,000 on September 25. Early the following morning it was announced that the Paris markets would be closed on that day and that the French Government would submit to the French Parliament on September 28 a proposal to reduce the gold value of the franc by about one-fourth to one-third. At the same time announcement was made in Paris, London, and Washington that the French, British, and United States Governments would cooperate in the maintenance of equilibrium in international exchange. The text of the statement issued in Washington follows.

1. The Government of the United States, after consultation with the British Government and the French Government, joins with them in affirming a common desire to foster those conditions which safeguard peace and will best contribute to the restoration of order in international economic relations and to pursue a policy which will tend to promote prosperity in the world and to improve the standard of living of peoples.

2. The Government of the United States must, of course, in its policy towards international monetary relations take into full account the requirements of internal prosperity, as corresponding considerations will be taken into account by the Governments of France and Great Britain; it welcomes this opportunity to reaffirm its purpose to continue the policy which it has pursued in the course of recent years, one constant object of which is to maintain the greatest possible equilibrium in the system of international exchange and to avoid to the utmost extent the creation of any disturbance of that system by American monetary action. The Government of the United States shares with the Governments of France and Great Britain the conviction that the continuation of this two-fold policy will serve the general purpose which all the Governments should pursue.

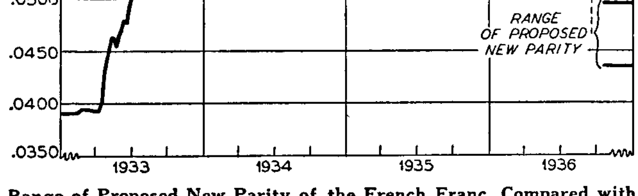
3. The French Government informs the United States Government that, judging that the desired stability of the principal currencies cannot be insured on a solid basis except after the re-establishment of a lasting equilibrium between the various economic systems, it has decided with this object to propose to its Parliament the readjustment of its currency. The Government of the United States, as also the British Government, has welcomed this decision in the hope that it will establish more solid foundations for the stability of international economic relations. The United States Government, as also the British and French Governments, declares its intention to continue to use appropriate available resources so as to avoid as far as possible any disturbance of the basis of international exchange resulting from the proposed readjustment. It will arrange for such consultation for this purpose as may prove necessary with the other two Governments and their authorized agencies.

4. The Government of the United States is moreover convinced, as are also the Governments of France and Great Britain, that the success of the policy set forth above is linked with the development of international trade. In particular it attaches the greatest importance to action being taken without delay to relax progressively the present system of quotas and exchange controls with a view to their abolition.

5. The Government of the United States, in common with the Governments of France and Great Britain, desires and invites the cöoperation of the other nations to realize the policy laid down in the present declaration. It trusts that no country will attempt to obtain an unreasonable competitive exchange advantage and thereby hamper the effort to restore more stable economic relations which it is the aim of the three Governments to promote.

The accompanying diagram shows the course of quotations for the French franc in New York since the beginning of 1933. As this chart indicates, the value of the French franc in terms of the currency of this country rose from around its old parity of 3.92 cents in the early part of 1933 to around 6.60 cents after the reduction in the gold value of the dollar at the end of January 1934, and presumably will now be reduced to between about 4.35 cents and 4.96 cents, or well above its old parity. The circumstances surrounding the reduction in the value of the franc and the measures taken by the French Government are reported in somewhat greater detail on a later page of this Review.

During the period in which the value of the French franc in this country was raised to around 6.60 cents by the revaluation of the dollar, there were recurrent outflows of gold from France to the United States and



Range of Proposed New Parity of the French Franc, Compared with Quotations for French Exchange in New York During 1933-1936

also to London. Between January 31, 1934 and September 25, 1936 the reported shipments from France to the United States aggregated about $1,665,000,000, and shipments to London totaled close to $1,000,000,000. Gold losses to the United States and England in 1934 were more than offset by receipts of gold from other sources, but since early in 1935 the gold reserve of the Bank of France has shown a net reduction of more than $2,000,000,000. Reported engagements of gold for export from France to the United States since August 7, when the recent movement began, totaled $216,400,000, and the total since the beginning of 1936 is more than $500,000,000. Purchases of gold in Paris for shipment to London are reported to have been even larger.

The announcement of the prospective reduction in the gold value of the French franc was followed by reports indicating that the gold value of the Swiss franc would be reduced accordingly, and that the Dutch guilder would be allowed to find its appropriate level in relation to other currencies, through the imposition of an embargo on gold exports and establishment of an exchange stabilization fund. These changes are considered to represent further important steps toward a new alignment of currencies.

In general, the new alignment is based, for the present at least, upon much less definite relationships of the various currencies to gold than was the case in the first series of currency readjustments following the World War. Great Britain, and other countries that have related their currencies to sterling, have not fixed any definite gold values for their currencies, but have nevertheless maintained a considerable degree of stability of their currencies in terms of gold during the past two years. France and Switzerland, following the United States, have announced a range of quotations within which the new gold values of their currencies are to be fixed and in Switzerland this announcement has been followed by the provisional fixing of a specified gold value within such range. In Belgium, the specific gold value of the belga, fixed provisionally in this manner, has since been definitely adopted, and the range of possible variation in gold values, originally adopted in April 1935, has been abandoned.

A rather general feature of the readjustment of currency values during the past few years has been the adoption of stabilization or equalization funds by the various countries, the operations of which are intended to avoid unnecessarily frequent and wide fluctuations in the international values of the respective currencies, and to prevent, in so far as possible, the impact of such fluctuations upon the domestic economy.

An incidental effect of the revaluation of currencies throughout the world has been a great increase in the monetary gold stock of the world in terms of currency units. In addition, the higher prices paid for newly mined gold have stimulated production, so that there has been an extraordinary growth of the gold base for currency and credit expansion during the past five years. Measured in terms of dollars, for instance, the published data on the monetary gold holdings of central banks and Governments in 52 of the principal countries, exclusive of Russia, indicate a total of approximately $21,500,000,000, whereas five years ago the value of such gold holdings, in terms of dollars of the former gold content was less than $11,000,000,000. As a result of the reduction in the gold value of the dollar, together with the heavy inflow of gold from abroad, the present monetary gold stock of the United States in dollar value is now nearly equal to the world stock of monetary gold in 1931. The potential expansion of currency and bank credit on the basis of existing gold reserves, therefore, has been greatly increased.

Excess Reserves and Treasury Financing

The recent inflow of gold from abroad, together with disbursements of funds from Government deposits in the Federal Reserve Banks increased excess reserves of member banks from a little over $1,800,000,000 on August 19 to $2,000,000,000 just preceding the September tax period, despite further withdrawals of currency from the banks to meet seasonal demands. On September 16, however, excess reserves dropped to a little over $1,700,000,000, due chiefly to Treasury financing on the September 15 tax date. Out of about $470,000,000 of new Treasury securities sold on that date, apart from securities offered in exchange for maturing securities, approximately $360,000,000 were paid for in cash instead of deposits payable to the Government on demand. The payments for the new Treasury securities, together with income tax collections, greatly exceeded interest payments on Government debt and other Treasury disbursements, and Treasury balances in the Federal Reserve Banks rose from about $55,000,000 on September 9 to $418,000,000 on September 16. Later in the month, however, Government disbursements again exceeded current receipts, and payments from Government deposits in the Reserve Banks, together with the proceeds of gold imports, caused a renewed expansion of excess reserves in member banks.

In New York City, payments to the Treasury for the new Government securities and for income taxes,

	Sept. 30, 1935	Aug. 31, 1936	Sept. 30, 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	3/16	3/16
Customers' rates on commercial loans (Average rate of leading banks at middle of month)	1.67	1.71	1.67
Treasury securities:			
Maturing December (yield)	No yield	No yield	No yield
Maturing February 1938 (yield)	....	0.13	0.25
Average yield on Treasury notes (1-5 years)	0.96	0.67	†0.80
Average yield on Treasury bonds (more than 5 years to earliest call date)	2.67	2.30	#2.33
Average rate on latest Treasury bill sales 273 day issue	0.23	0.17	0.19
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 †Change of +0.08 from previous yields due to the dropping of the September 15, 1937 Treasury note issue from the average as it matures within one year. # Average raised +0.03 by inclusion of 2¾ per cent Treasury bonds of 1956-59.

together with a preceding outflow of funds to other districts, reduced excess reserves to $430,000,000 on September 18, as compared with about $700,000,000 at the end of August. In the latter part of September, however, there was a gradual increase to over $500,000,000, reflecting largely the effect of gold imports. Despite the reduction in excess reserves during the month of September money rates in the New York market remained unchanged, and no unusual activity in the money market was reported.

Member Bank Credit

In the four weeks ended September 23 the loans and investments of weekly reporting member banks in New York City and other principal cities throughout the country showed substantial increases, reflecting chiefly increases in commercial loans and Government security holdings, together with some increase in loans on securities, largely to security dealers in connection with the September Treasury financing. The increase in total loans and investments in New York City was $200,000,000 and for all reporting member banks amounted to about $350,000,000.

The classification of loans which includes loans to business organizations increased $64,000,000 in New York City banks, and $158,000,000 in all reporting member banks during the four weeks ended September 23, and on that date the total volume was $527,000,000 greater than a year previous.

Holdings of Government securities by the reporting member banks in New York City and elsewhere showed some increase in September, reflecting purchases of the new Treasury securities sold on September 15, but remained below the levels of the latter part of June and early July, despite an increase of approximately $500,000,000 in the volume of Government securities outstanding, exclusive of Veterans Adjusted Service bonds. These figures indicate, therefore, that an increased proportion of outstanding Government securities has been taken by investors and investing institutions other than member banks during the past few months.

Government Securities

The Treasury on September 8 announced its quarterly financing program, which included the offering of $400,000,000 or thereabouts of 2¾ per cent 20-23 year bonds for cash subscription, and an offer to exchange bonds of the new issue for Treasury notes maturing September 15, 1936. Cash subscriptions to the new bonds totaled more than $5,100,000,000 on the one day that the subscription books were open, and $470,000,000 of the new issue was actually allotted, of which slightly over $200,000,000 was in the Second Federal Reserve District. Despite the increase in member bank reserve requirements on August 15 and the consequent reduction in excess reserves, the proportion of the new Treasury securities paid for immediately in cash rather than with deposits payable to the Government on demand—77 per cent—was virtually as large as in June, and was larger than the proportion paid for in cash on the March issues. The total of the September new financing, however, was considerably smaller than on the two previous quarterly dates, and the actual amount paid for in cash consequently was much smaller than in June or March. Allotments of the new bonds in exchange for the notes amounted to $512,000,000, leaving only $2,000,000 of the maturing issue to be redeemed in cash.

Treasury bill financing during September was limited to five weekly sales of $50,000,000 of 273 day bills which replaced maturities of similar amounts. Average rates on the issues varied between 0.13 and 0.19 per cent, or slightly below the August rates.

The strength in Government security prices, which was evident during August, continued to be exhibited in the first few days of September, and the average price of Treasury bonds reached new high levels. A small recession occurred in the week between the announcement of the new bond offering and the issue date, and in the following week the market became increasingly irregular, although the volume of trading remained light. In the latter part of the month prices receded about ¼ point further in a narrow market, so that average quotations toward the close of September were about ⅜ of a point below the highest levels of early September, but remained above the quotations prevailing prior to the second half of August. The new 2¾ per cent Treasury bonds of 1956-59, which closed at 101 9/32 on September 15, the initial day of trading on the New York Stock Exchange, were quoted at 101 at the close of September 28, and the 2⅞ per cent Treasury bonds of 1955-60, which had been as high as 103½ on September 2 and 103 on September 15, closed at 102 22/32 on September 28. Treasury notes were somewhat heavy during the latter part of September, and the average yield on outstanding issues of 1 to 5 year maturity rose to 0.83 per cent, as compared with 0.76 per cent on September 15. As the month closed, however, prices of all Treasury securities turned slightly firmer.

Bills and Commercial Paper

Trading activity in bills increased slightly for a short time around the middle of September but for the month as a whole the acceptance market continued quiet. No change occurred in rates. Bills outstanding at the end of August, as shown in the accompanying table, totaled $308,000,000, a decrease of approximately $8,000,000 from July. Export bills showed a decrease of $5,000,000 and bills based on goods stored in or shipped between foreign countries declined by a similar amount. Accepting banks and bankers at the end of August held $279,000,000 of bills, or roughly 91 per cent of all bills then outstanding.

(Millions of dollars)

Type of acceptance	August 1935	July 1936	August 1936
Import	102	105	104
Export	81	68	63
Domestic shipment	9	10	10
Domestic warehouse credit	43	47	50
Dollar exchange	4	2	2
Based on goods stored in or shipped between foreign countries	83	84	79
Total	322	316	308

Commercial paper dealers reported a somewhat smaller, though generally fair, demand during September for credit from concerns using the facilities of the commercial paper market. Bank investment demand for business notes remained well in excess of available offerings. Although there was some indication of a slightly firmer rate tendency in the commercial paper market, quotations were not materially affected and average grade prime four to six month commercial paper remained at ¾ per cent. At the end of August commercial paper houses had a total of $205,200,000 of paper outstanding; this compares with $187,600,000 at the end of July, and is the largest amount outstanding since October 1931.

Foreign Exchanges

The French franc in September remained steadily at or near the level at which gold shipments to this country were profitable, and following gold engagements in increasing volume through September 25, the French Government on September 26 announced its decision to propose to its Parliament a reduction in the gold value of the franc. The French announcement was made simultaneously with statements by the United States and British Governments, declaring their intention to continue to use appropriate available resources so as to avoid as far as possible any disturbance of the basis of international exchanges resulting from the proposed currency readjustment.

The French Parliament was specially convened on September 28 to vote on the Government's proposed monetary measures. These measures include authority to reduce the gold content of the franc by from 25.19 to 34.35 per cent, and to establish a stabilization fund for the purpose of regulating the exchange value of the franc. Meanwhile exchange dealings were temporarily suspended in the Paris market and the Bank of France raised to a prohibitive figure the minimum unit for the conversion of bank notes into gold. Following swiftly upon the French Government's decision, action was also taken by the remaining countries of the gold bloc, whose special monetary difficulties were broadly similar to those of France. In Switzerland laws were enacted authorizing a reduction in the gold content of the currency of from 25.94 to 34.56 per cent, and providing for the establishment of a stabilization fund. Pursuant to this legislation, the Swiss National Bank effected a de facto reduction in the gold value of the Swiss franc of 30.08 per cent. An embargo on gold exports was imposed by the Netherlands Government and a stabilization fund authorized.

During the last few days of the month the rates for the above currencies were in the process of adjustment to their new bases. Owing to the temporary suspension of exchange dealings in the Paris market and to the resulting difficulty in promptly obtaining francs for settling maturing commitments, the initial decline in franc exchange was considerably smaller than the contemplated decrease in the franc's gold value, the franc-dollar rate being quoted as high as $0.0575 on September 29, which was only 13.3 per cent below its previous parity. The special condition in the franc market was corrected on September 30 and the rate declined to $0.0485, equivalent to a depreciation of 26.9 per cent. The guilder was quoted at 55.00 cents on September 30, or 19.2 per cent below its former gold parity, and the Swiss franc, at 23.00 cents, was 29.6 per cent below its former parity and close to the new de facto parity.

The period immediately preceding the French Government's decision was marked by a pronounced accentuation of pressure against French exchange, which was reflected in a greatly accelerated gold outflow and in a large widening of the discount on forward francs. The Bank of France reported a gold loss of $171,100,000 during the week ended September 25, following a decrease of $55,700,000 in the previous week and of $43,300,000 two weeks earlier. French exchange had been recurrently under pressure since the beginning of April 1935, following the provisional revaluation of the Belgian monetary unit, and the gold holdings of the Bank of France, which were at a high point of $5,479,000,000 in the latter part of March 1935, were drawn down by $2,157,000,000 during the succeeding year and a half.

Although the quotation for spot francs in New York was maintained at its lower gold point of $0.0658 5/16 through September 25 by means of the usual machinery of gold shipments, the discount on forward francs widened rapidly during the few days preceding the French Government's action, the rate for three months' contracts reaching the equivalent of roughly 50 per cent a year as compared with 14 per cent at the end of August. Discounts on contracts of shorter maturity, when calculated on a per annum basis, were even wider. Owing to the heavy gold drain resulting from the acute weakness in franc exchange, the Bank of France on Thursday, September 24, announced an increase in discount rate from 3 to 5 per cent, effective the following day.

During most of September the pound continued to show an upward tendency in terms of gold currencies, the dollar-sterling rate reaching a high of $5.07¼ on September 22. In the subsequent few days, however, this movement was reversed and the rate closed at $5.01⅞ on Friday, September 25. On Saturday morning, immediately following the publication of the French Government's announcement, movements in the pound-dollar quotation were somewhat erratic, but the rate quickly became more stable, ranging between $4.93½ and $4.95¾ on September 28, 29, and 30.

Gold Movement

The movement of gold to the United States which began during the early part of August continued during September at an accelerated rate. Imports affecting the monetary gold stock of this country amounted to $107,000,000, of which $82,300,000 from France, $8,100,000 from England, $6,500,000 from India, $5,700,000 from Canada, $1,400,000 from Holland, $500,000 from Switzerland, and $500,000 from Chile were received at New York, and on the West Coast $1,700,000 came from Australia and $400,000 from Hongkong. These imports, together with continued receipts of newly mined and scrap gold at the mints and assay offices and the release of $3,500,000 of gold from earmark for foreign account at the Federal Reserve Bank of New York, resulted in an increase of approximately $130,000,000 in the monetary gold stock of this country during September.

Additional imports totaling $32,400,000 were placed under earmark for foreign account on arrival, and consequently their receipt in this country did not increase the gold stock.

Central Bank Rate Changes

Effective September 9 the discount rate of the Swiss National Bank was lowered from 2½ to 2 per cent. The earlier rate had been in force since May 3, 1935. As of the 25th the Bank of France raised its discount rate and its rate for 30 day advances on short term Government securities from 3 to 5 per cent, and the rate for three months' advances on other securities was increased simultaneously from 4 to 6 per cent. The lower rates had been in force since July 10.

Security Markets

Movements of stock prices were rather irregular in September. During approximately the first week of the month prices recovered further from the mid-August decline, and although a representative average of all groups of stocks established a new high since April 1931, it was not materially above the levels touched in the latter part of July and again in the first part of August. Railroad and industrial stocks were the strongest groups, while the public utilities remained below their July and August highs. In the period between September 8 and September 16, a downward tendency developed, the extent of the decline being about the same as in the recession around the middle of August. Subsequently, the upward movement of prices was resumed, and average prices of industrial and railroad shares equaled the high levels reached early in September, but the utilities remained somewhat lower and were about 6 per cent below the year's high which was reached in July. In the last week of the month, irregular price movements prevailed. The volume of stock trading on the New York Stock Exchange continued to be rather light throughout September.

Domestic corporation bonds generally advanced during September, following the irregular movements during August. The rise included all classes and grades of bonds but was most pronounced in the case of medium grade railroad bonds, which rose above their previous high levels of 1936 reached in February, in response to increasing traffic and reports of improved railroad earnings. Despite the more rapid advance in medium grade railroad bonds than the comparable grades of industrial and public utility bonds, however, the railroad bonds continue to sell at lower prices than either of the other classes of bonds; expressed on the basis of average yields, railroad bonds rated Baa by Moody's Investors Service are now selling at prices to yield about 5.15 per cent, as compared with 4.65 per cent for public utility bonds and 4.10 per cent for industrial bonds of similar grade.

New Financing

The volume of new security offerings increased moderately during September over the volume put out in August, but nevertheless remained smaller than in a number of months earlier this year. The amount appears also to have been somewhat less than in September of last year, according to preliminary weekly data. Domestic corporation issues totaled about $170,000,000, including $73,000,000 of public utility bonds, $67,000,000 of industrial securities, and $28,000,000 of railroad bonds. State, municipal, and farm loan financing aggregated $200,000,000. The total of all issues, including some small finance company issues, was in the neighborhood of $380,000,000. The larger issues of the month are listed below.

Issue	Amount	Term of Years	Yield to Maturity (per cent)
Bethlehem Steel Corporation	$55,000 000	30	3 83
State of New York	55,000,000	1-10	0 25-1.50
Commonwealth of Pennsylvania	45,000,000	9 mos.	1.00
Louisville Gas & Electric Company	28,000,000	30	3.35
Union Pacific Railroad Company	20,000,000	34	3.53
Detroit Edison Company	20,000,000	30	3.24

The Bethlehem Steel issue was of interest because, aside from $14,700,000 for the retirement of securities of subsidiary companies, the proceeds will be used for acquisitions, improvements, and other corporate purposes including additional working capital. The feature of the State of New York issue was that it was the largest block of bonds sold by the State at one time and that the interest cost to the State—1.36 per cent—was the lowest of record. The Union Pacific Railroad flotation was the first large refunding operation undertaken with a coupon differential of only ½ per cent between the called bonds (which bear 4 per cent interest) and the new issue (on which the coupon rate is 3½ per cent). The advantage of the operation is somewhat greater relative to other recent refunding operations than is indicated by the difference in coupon rates, however, since the called issue is redeemable at par, whereas in many refunding operations the securities to be replaced must be redeemed at prices well above par.

The new issues during September generally were favorably received in the market, and quotations advanced somewhat above or held at the offering levels.

Commodity Prices

Following a moderate recession in the latter part of August and first part of September, the comprehensive index of wholesale commodity prices compiled by the Bureau of Labor Statistics advanced in mid-September to equal the six year high of 81.5 per cent of the 1926 level previously reached on August 22, and declined moderately towards the close of the month. These movements resulted largely from fluctuations in the farm and food products groups. Farm prices as a group reached in the week ended September 19 a new high level since September 1930, exceeding by a slight margin the August high. Exclusive of the farm and food products groups, little net change in basic commodity prices from the previous month's quotations was registered.

Among the individual agricultural commodities, the most substantial increase was in the price of wheat. Rising steadily from early in September, the cash quotation of the Number 1 Northern grade at Minneapolis advanced 12 cents to \$1.48⅜ a bushel, or only 1 cent below the seven year high established early in August, and subsequently lost only a small part of this gain. The cash quotation for corn advanced during the first half of the month, but receded subsequently, and showed little net gain for the month. A net gain of nearly ⅞ cent a pound also occurred in spot cotton, reflecting in part the reduction in the crop indicated by the Government report for September 1. Steer prices displayed a rising trend and hides also rose somewhat. Hog prices showed on the average a decline of 90 cents a hundredweight, but at this season of the year they generally tend to move somewhat lower. Raw sugar decreased 30 points to 3.40 cents a pound, the lowest quotation since February.

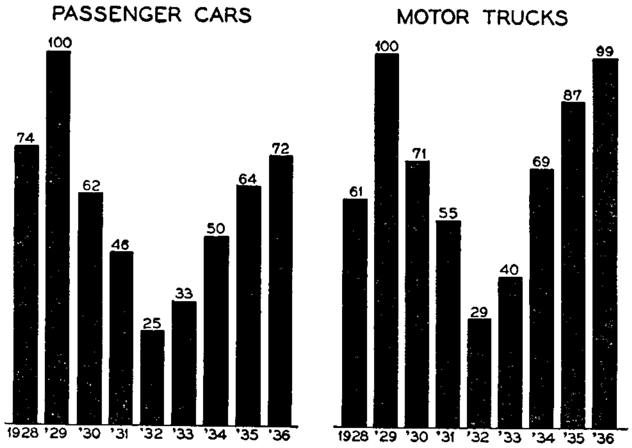
The principal change in metal prices during September was a rise in scrap steel; at Pittsburgh the quotation advanced \$2 further to \$18.25 a ton, and at Chicago also prices were moderately higher. Tin reached a four month high of 46⅛ cents a pound on September 18 and closed the month slightly below this figure. Metal prices, with these exceptions, showed little change.

Production

The level of industrial production that prevailed in August appears to have been maintained during September. Steel mill operations continued to fluctuate within the narrow range around the 70 per cent of capacity level that has prevailed since April, although purchases in anticipation of price rises and resumption of buying by automobile manufacturers resulted in a rising tendency over the month as a whole, and during the last week operations were estimated at about 75 per cent of capacity. It was reported that cotton textile mills continued to operate at a high level during September; electric power production increased slightly; and bituminous coal output rose substantially. On the other hand, automobile production declined further as assembly lines were stopped for model changeovers.

The seasonally adjusted index of industrial production of the Board of Governors of the Federal Reserve System was unchanged in August at 107 per cent of the 1923-25 average, as production in the aggregate showed the usual seasonal rise. Gains in some lines were offset by declines in other lines, seasonal factors allowed for in all cases. Steel output increased 7 per cent to the highest level for any August with one exception, and cotton textile production, in rising 4 per cent, established a similar record. Expanded activity was also evident in rayon mills, meat packing plants, flour mills, and blast furnaces, and shoe production exceeded all previous peaks. Declines, on the other hand, occurred in automobile assemblies as production of 1936 models drew towards a close, and also in output of coal, lead, and zinc. Machine tool orders, following the spurt in July, returned to the level of June.

With the cessation of assembly operations on 1936 models, it is timely to review the extent of recovery in the automobile industry during the past four years. The accompanying diagram shows production of passenger cars and trucks during the first eight months of



Production of Passenger Cars and Motor Trucks During the First Eight Months of 1928-1936 (Data for First Eight Months of 1929 = 100 per cent)

each year since 1928, in percentages of output in the 1929 period. From 1929 to 1932 passenger car production declined 75 per cent, but since that time 8 points of decline were recovered in 1933, 17 points in 1934, 14 in 1935, and 8 in 1936, so that production in the first eight months of the present year was within 28 per cent of the 1929 peak, and was almost equal to the 1928 figure, which was next to the highest in the industry's history. Truck production declined somewhat less than passenger car production from 1929 to 1932—71 per cent—and has subsequently risen practically to the 1929 peak. Of the 71 point decline from 1929 to 1932, 11 points were recovered in 1933, 29 in 1934, 18 in 1935, and 12 this year. Comparisons between the various years may be affected to some extent by changes in seasonal activity of the industry from year to year.

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

	1935	1936		
	Aug.	June	July	**Aug.**
Metals				
Pig iron	53	75	77	81
Steel	69	91	95	101
Lead	50	59	59	49
Zinc	67	86	87	81
Automobiles				
Passenger carsr	81r	92r	106r	98p
Motor trucks	98	101	108	106p
Fuels				
Bituminous coal	63	79	86	82p
Anthracite coal	43	77	71	57p
Petroleum, crude	68	70	68	70p
Petroleum products	68	69	71	...
Electric powerr	86r	91r	92r	94p
Textiles and Leather Products				
Cotton consumption	72	93	105	106
Wool consumption	134	103	113	118p
Silk mill activity	70	56	61	67
Rayon deliveries*	116	98	119	134
Shoes	99	98	113	112p
Foods and Tobacco Products				
Meat packing	77	84	89	96
Wheat flour	68	89	98	102
Refined sugar deliveries	71	78	57	...
Tobacco products	82	83	93	89
Miscellaneous				
Cement	36	55	58	61
Tires	59	83	94	...
Newsprint paper	68	74	71	72p
Machine toolsr	118r	118r	153r	120r

p Preliminary *r* Revised * For quarter ended

Indexes of Business Activity

During the first three weeks of September, shipments of merchandise and miscellaneous freight over the railroads showed an advance of more than the usual proportions and reached the highest level after seasonal adjustment since the summer of 1931. The present upward movement, which has been in progress since February, has been about 10 per cent more than the usual seasonal increase. The present level of merchandise and miscellaneous car loadings, while only about two-thirds that of 1929 is 40 per cent above the March 1933 low point.

An increase of more than seasonal proportions was also shown in the movement of bulk freight over the railroads during the first three weeks of September, following a decline in August. Wholesale trade was reported to have been accelerated by increased demand for fall merchandise, but continued warm weather retarded retail trade somewhat, although most sections of the country covered by the weekly survey of the Department of Commerce continued to report at least small advances in sales over the corresponding periods of last year. Reports to this bank on department store sales in the New York Metropolitan area in the first half of September showed sales slightly smaller than a year ago, however.

Indexes of business activity for August appear below.

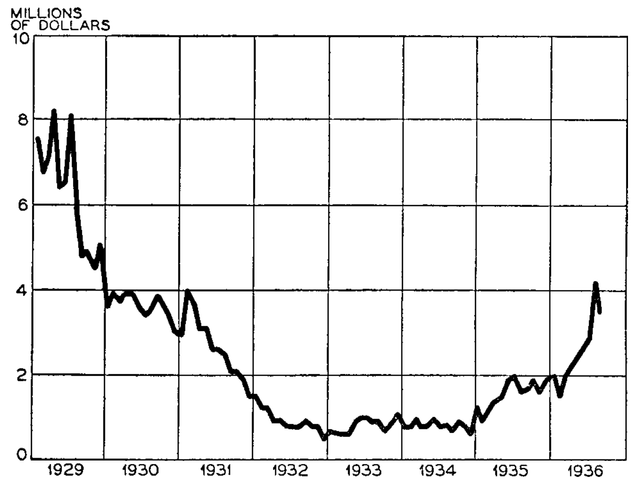
(Adjusted for seasonal variations, for usual year to year growth, and where necessary for price changes)

	1935	1936		
	Aug.	June	July	Aug.
Primary Distribution				
Car loadings, merchandise and misc.r	62r	71r	72r	72r
Car loadings, otherr	61r	76r	80r	77r
Exports	48	53	51	51p
Imports	66	80	81	74p
Distribution to Consumer				
Department store sales, U. S.r	82r	87r	88r	90r
Department store sales, 2nd Dist	70	74	73	72
Chain grocery salesr	68r	71r	73r	72r
Other chain store salesr	89r	99r	95r	96r
Mail order house salesr	77r	98r	91r	92r
Advertising	60	65	65	65
New passenger car registrationsr	79r	101r	97p	90p
Gasoline consumption	85	87	92	...
General Business Activity				
Bank debits, outside New York City	63	67	65	65p
Bank debits, New York City	45	43	41	39
Velocity of demand deposits, outside New York City	67	73	71	70
Velocity of demand deposits, New York City	45	44	40	40
New life insurance sales	55	54	54	52
Factory employment, United States	83	88	89	90p
Building contracts	36	43	55	57
New corporations formed in N. Y. State	59	57	61	56
General price level*	146	152	154	155p
Composite index of wages*	187	191	193r	194p
Cost of living*	141	142	143	142p

p Preliminary *r* Revised * 1913 average=100. Not adjusted for trend.

Building

A continued advance in building activity during August in the New York and Northern New Jersey area was indicated by an increase of 16 per cent over July in building and engineering contracts to the largest total in nearly five years. The increase, shown by the F. W. Dodge Corporation data, was largely accounted for by a gain of 60 per cent in residential contracts which included several Public Works Administration



Average Daily Value of Residential Building Contracts in 37 States, Adjusted for Seasonal Variation (Based on F. W. Dodge Corporation figures; preliminary data for first three weeks of September)

apartment house and other housing projects. A slight increase in contracts for heavy engineering work was offset by a small decrease in contracts for other types of nonresidential building. In comparison with August 1935, all of the major classifications of building registered sizable advances, the most outstanding gain being shown in residential building which was approximately 2¾ times larger, and the total of all contracts was more than double the volume of a year ago.

For the 37 States covered by the F. W. Dodge Corporation complete report, total contracts in August were approximately 7 per cent lower than in July. Contracts for heavy engineering and other types of nonresidential work were considerably smaller, but residential contracts showed a gain of nearly 40 per cent owing largely to the inclusion of Federal housing projects.

The recovery in residential building from the extremely low level of the period from 1932 through 1934 is indicated by the accompanying diagram, which shows the average daily volume of residential contracts in each month, adjusted for the usual seasonal movements. The figure for August 1936, due to the inclusion of the Federal housing projects referred to above, reached the highest point since December 1929, and although preliminary figures for the first three weeks of September indicate some recession, the average level of recent months has been such as to indicate substantial recovery in residential building.

The data for the first three weeks of September showed a decline in nonresidential building other than public works and utilities, contrary to the usual seasonal tendency and an increase in heavy engineering work of less than the usual seasonal proportions.

Employment and Payrolls

New York State factory employment advanced about 1 per cent, after allowance for the usual seasonal change, from the middle of July to the middle of August, and payrolls increased nearly 2 per cent more than is usual at this time of the year. This bank's adjusted index of factory employment reached the highest level since

September 1930 and the adjusted payroll index rose to the highest point since May 1931. Increased employment was reported in all of the major industrial classifications with the exception of the food group. The most pronounced gain in employment occurred in the clothing industry, where the number of workers increased at more than the customary seasonal rate. Improvement in private employment in this State is further evidenced in a combined report of the New York State Employment Service and the National Re-employment Service which indicates that the two services placed approximately 38 per cent more workers in private employment during August than in the same month last year.

For the entire country private employment in the industries covered by reports to the Department of Labor increased for the sixth consecutive month in the period from July 15 to August 15. Factory employment advanced by more than the usual seasonal proportions, raising the adjusted index to the highest point since July 1930. The increase in employment in manufacturing industries was well distributed, 71 of the 90 industries covered by the Department of Labor reporting more workers in August than in July.

Foreign Trade

During August the amount of the foreign merchandise trade of this country was substantially the same as in the previous month, exports amounting to $178,000,000 and imports to $195,000,000. Exports showed an increase of 4 per cent over a year ago while imports gained 15 per cent; both exports and imports were larger in value than in the corresponding month of any year since 1930. The $17,000,000 excess of imports for August was the sixth import balance to occur this year, and compares with an export balance of $3,000,000 in August 1935. The excess of imports for the first eight months of this year amounts to $41,000,000, as against an export balance of $29,000,000 in the corresponding period of last year.

Department Store Trade

For the first half of September total sales of the reporting department stores in the Metropolitan area of New York were 1.1 per cent lower than in the corresponding period a year ago, and less than the usual seasonal expansion in sales appears to have occurred from August to September. The reporting stores in the Northern New Jersey District had an increase in sales over a year ago, but a more than offsetting decline occurred in the Manhattan and Brooklyn stores.

In August, total sales of the reporting department stores in this district were 2.6 per cent higher than last year, which even after making allowance for one less shopping day this year is the smallest increase since December. Sales of New York City and Northern New Jersey stores showed increases which were much less than those reported in July, but average daily sales in most other parts of the Second Federal Reserve District made more favorable comparisons. Daily average sales of the Buffalo, Syracuse, Capital District, Central New York State, Niagara Falls, and Westchester and Stamford stores showed the largest increases since May, and sales of the Rochester, Bridgeport, and Northern New York State department stores showed the largest year to year gains in over two years. Sales of the leading apparel stores in this district were 7.3 per cent higher than last year, but that was the smallest increase since October 1935.

Department store stocks of merchandise on hand were 9.8 per cent higher than last year, the most substantial increase to be shown in over two years. Department store collections in August were at the same rate as last year, while apparel store collections were slightly lower.

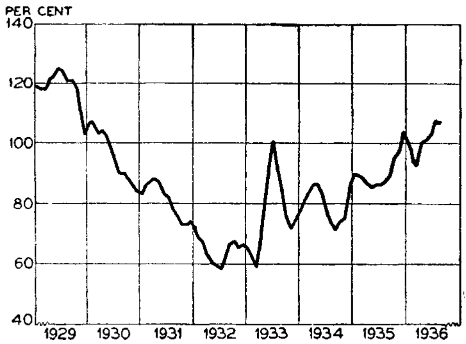
Locality	Per cent change August 1936 compared with August 1935		Per cent of accounts outstanding July 31 collected in August	
	Net sales	Stock on hand end of month	1935	1936
New York	+ 0.2	+11.0	42.7	41.1
Buffalo	+14.1	+14.7	45.6	46.4
Rochester	+13.4	— 1.4	42.1	46.6
Syracuse	+ 2.4	+ 0.8	33.4	35.3
Northern New Jersey	+ 6.1	+ 8.6	34.8	36.4
Bridgeport	+10.1	+12.1	39.3	40.8
Elsewhere	+ 4.8	— 4.0	29.6	30.4
Northern New York State	+ 9.4	......	....	....
Southern New York State	— 2.1	......	....	....
Central New York State	+ 5.9	......	....	....
Hudson River Valley District	+ 6.6	......	....	....
Capital District	+ 7.9	......	....	....
Westchester and Stamford	+ 0.3	......	....	....
Niagara Falls	+13.3	......	....	....
All department stores	+ 2.6	+ 9.8	39.9	39.9
Apparel stores	+ 7.3	+ 7.6	34.9	34.6

Wholesale Trade

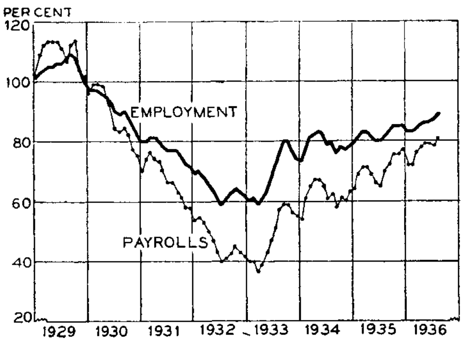
August sales of the reporting wholesale firms in this district averaged 10.6 per cent higher than last year, a smaller increase than in July. Although most of the individual lines reported smaller increases in sales in August than in the previous month, the gains over a year ago in several types of wholesale trade continued to be substantial. Drug firms showed a slightly larger increase in sales than in July, and shoe concerns recorded a smaller decline. Sales of silk goods, reported on a yardage basis by the National Federation of Textiles, were considerably lower than last year, following four months in which increases occurred.

Commodity	Percentage change August 1936 compared with August 1935		Per cent of accounts outstanding July 31 collected in August	
	Net sales	Stock end of month	1935	1936
Groceries	+ 9.4	— 1.8	94.6	90.3
Men's clothing	+14.9	......	55.1	46.4
Cotton goods	+ 8.2	......	43.9	42.9
Rayon and silk goods	—14.4*	......	62.4	64.4
Shoes	— 3.0	......	33.9	38.3
Drugs	+15.2	+22.5	25.3	27.8
Hardware	+12.9	+ 9.6	46.3	44.6
Stationery	+ 4.9	......	55.9	58.8
Paper	+ 2.5	......	43.9	58.8
Diamonds } Jewelry	+24.4 +24.7	— 2.2 +112.0	22.6	22.3
Weighted average	+10.6	......	59.2	57.3

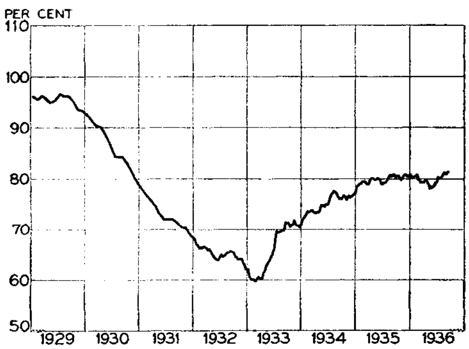
* Quantity figures reported by the National Federation of Textiles, Incorporated not included in weighted average for total wholesale trade.



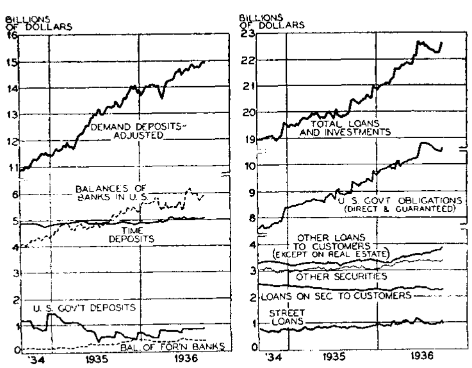
Index Number of Production of Manufactures and Minerals Combined, Adjusted for Seasonal Variation (1923-25 average = 100 per cent)



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



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



Wednesday Figures for Reporting Member Banks (Latest figures are for September 16)

Business Conditions in the United States

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

INDUSTRIAL activity increased seasonally in August, and there was a substantial increase in factory employment and payrolls. Commodity prices, which had advanced for three months, showed little change after the middle of August.

Production and Employment

The Board's index of industrial production, which makes allowance for usual seasonal movements, remained unchanged in August at 107 per cent of the 1923-1925 average. Output of steel increased by more than the seasonal amount and the higher level was maintained in the first three weeks of September. Production of automobiles was sharply reduced as plants were closed for inventory taking and for mechanical changes in connection with the introduction of new models. Output of nondurable manufactures increased further in August, reflecting chiefly continued expansion in activity at textile plants and shoe factories. At bituminous coal mines output increased less than is usual at this season and at anthracite mines production declined. Output of petroleum showed an increase.

Factory employment rose further between the middle of July and the middle of August by an amount larger than is usual at this season. There were substantial increases in working forces at establishments producing textiles and wearing apparel and smaller increases in most other lines, partly offset in the total by a decline in employment in the automobile industry. Factory payrolls increased.

Value of construction contracts, which had increased sharply in July, declined somewhat in August, according to the figures of the F. W. Dodge Corporation. The value of nonresidential projects was smaller than in July but larger than in other recent months. Residential building increased considerably, reflecting a marked increase in contracts for apartments, several of which were publicly financed projects. Awards for single-family houses, which have accounted for most of the increase in residential building during the past year and a half, showed little change in August.

Agriculture

Department of Agriculture crop estimates based on September 1 conditions were about the same as the estimates made a month earlier, except for a sharp decline in prospects for cotton. Prospective output of leading crops, with the exception of cotton and winter wheat, is considerably smaller than last year, but, in comparison with the drought year 1934, it is larger, except for corn and potatoes.

Distribution

Freight car loadings of most classes of commodities showed about the usual seasonal increase from July to August. Shipments of grain, however, declined sharply and the increase in total loadings was less than seasonal. Department store sales increased by less than the usual amount and the Board's seasonally adjusted index was 86 per cent of the 1923-1925 average as compared with 91 per cent in July and 87 per cent in June.

Commodity Prices

Wholesale commodity prices showed little change between the middle of August and the third week of September, following three months of advance. Prices of steel scrap and chemicals and drugs continued to advance and there were also increases in the prices of hides and nonferrous metals. There was a seasonal decline in hog prices. Cotton, which advanced in price early this month at the time of the official crop report, declined after the middle of the month.

Bank Credit

Demand deposits of reporting member banks in leading cities increased somewhat further in the four weeks ended September 16, reflecting gold imports, Treasury expenditures, and an increase in bank loans. Growth in loans was principally in so-called "other" loans, which include loans to customers for agricultural, commercial, and industrial purposes. These loans are now at the highest level since early in 1933. Loans to security dealers showed an increase, as is usual, prior to flotation of the new issue of Treasury bonds on September 15. A part of the new Treasury issue was purchased by reporting banks, principally by drawing upon their balances with the Reserve Banks.

Largely as a consequence of payments to the Treasury excess reserves of member banks showed a decrease of $280,000,000 in the week ended September 16. This decline followed an increase of nearly $200,000,000 in the preceding three weeks, when the Treasury was reducing its deposits with the Reserve Banks. Since early in August there has been a renewed inflow of gold and the country's monetary gold stock has increased by about $100,000,000 in the past month.