MONTHLY REVIEW
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Federal Reserve Bank, New York

Federal Reserve Bank, New York
November 1, 1936

Money Market in October

Further steps have been directed during the past month toward the restoration of equilibrium between the principal currencies of the world. The action taken by France, Holland, and Switzerland near the end of September had practically completed the suspension of free redeemability of currencies in gold, which for a long period in the past had been the principal means of maintaining stability in the international value of currencies. Following this action, however, alternative means of maintaining stability in the external values of currencies were promptly adopted. In several countries stabilization funds were created, with authority to buy or sell foreign currencies or gold to maintain the stability of the respective currencies, in order that the financing of business transactions might be facilitated and speculative transactions in the currencies made more precarious. In other countries this function has been undertaken by central banks.

Gold continues to be the common denominator of the principal currencies of the world, and in view of the limitations placed upon gold transactions in the various countries, special arrangements were needed whereby foreign currencies purchased for the purpose of stabilizing the international value of currencies could be converted into gold. In this country the following statement was issued by the Secretary of the Treasury, effective October 13.

> Supplementing the announcements made by him on January 31 and February 1, 1934, to the effect that the Treasury would buy gold, and on January 31, 1934, referring to the sale of gold for export, the Secretary of the Treasury states that (hereafter, and until, on twenty-four hours notice, this statement of intention may be revoked or altered) the United States will also sell gold for immediate export to, or earmark for the account of, the exchange equalization or stabilization funds of those countries whose funds likewise are offering to sell gold to the United States, provided such offerings of gold are at such rates and upon such terms and conditions as the Secretary may deem most advantageous to the public interest.
>
> The Secretary announces herewith, and will hereafter announce daily, the names of the foreign countries complying with the foregoing conditions.
>
> All such sales of gold will be made through the Federal Reserve Bank of New York, as fiscal agent of the United States, upon the following terms and conditions which the Secretary of the Treasury deems most advantageous to the public interest:
>
> > Sales of gold will be made at $35 per fine ounce plus one-quarter per cent handling charge, and sales and earmarking will be governed by the regulations issued under the Gold Reserve Act of 1934.

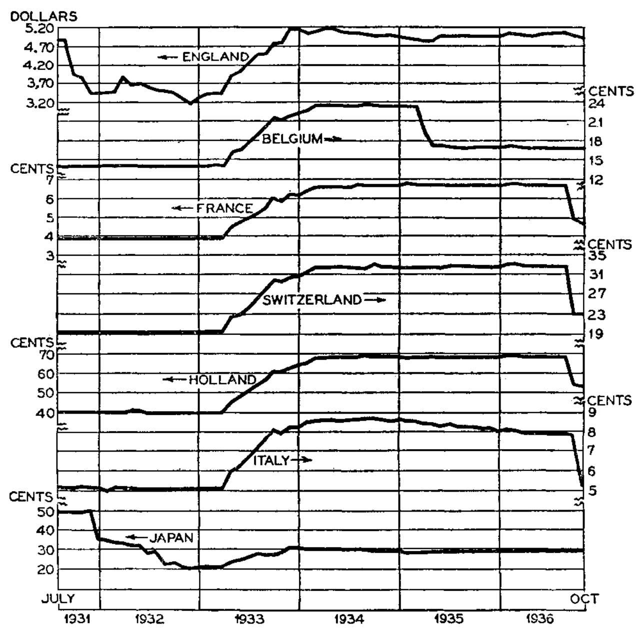
This announcement was followed by another, which stated:

> The Secretary of the Treasury today named Great Britain and France as complying with the conditions specified in his press release of October 13, 1936, for the purchase of gold from the United States for immediate export or earmark.

No other countries were subsequently named as complying with the conditions specified for the purchase of gold from the United States.

Presumably due in part to the activities of the various equalization or stabilization funds, the operations of which are not made public, quotations for the principal currencies displayed a high degree of stability during the remainder of October. The pound sterling was quite steady around $4.89, and the French franc around 4.65 cents, and other currencies, the gold values of which have recently been reduced materially, such as the Italian and Swiss exchanges, also held within comparatively narrow limits during the latter part of October.

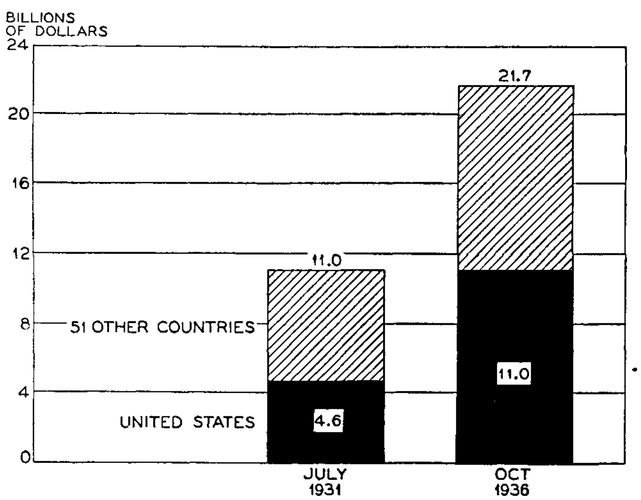
The accompanying diagram shows the movements of several of the principal foreign currencies during the past few years in terms of dollars and cents, and indicates their present status relative to their position at the middle of 1931 before the European countries or the United States had taken action reducing the gold value



Foreign Exchange Rates in Terms of the Dollar

of their currencies. In general, as the diagram indicates, the recent reductions in the gold values of the principal European currencies have restored exchange relationships much closer to those prevailing in 1931 than have existed for several years. The rise in the price of gold in this country from $20.67 an ounce to $35.00 an ounce between the spring of 1933 and the end of January 1934, and the accompanying reduction in the gold value of the dollar, was reflected in a general and substantial rise in the values of the principal foreign currencies in terms of dollars. The changes that have taken place subsequently have been in the direction of restoring, at least partly, the relative positions of the various currencies that existed in the middle of 1931. As the diagram indicates, the British and Italian currencies are now at practically the same levels, relative to the dollar, as in July 1931, while the Belgian, French, Swiss, and Dutch exchanges remain somewhat higher than in 1931, and the Japanese exchange remains considerably lower.

In nearly all cases, the gold values of the principal currencies of the world are now considerably lower than in 1931, and an important result has been a great increase in the money value of gold stocks which constitute the principal monetary base, and thus a great increase in the potential expansion of currency and bank credit that could be supported by monetary gold stocks. The accompanying diagram shows the approximate amount of reported gold holdings of central banks and governments in 52 countries, valued in dollars, at present as compared with the total in 1931. As this diagram indicates, the total dollar value of reported gold stocks (which, in a few cases, exclude substantial amounts held by equalization or stabilization funds) is approximately double the amount in 1931. The increase has resulted not only from the higher valuation of gold previously included in monetary gold stocks, but also from considerable additions to such stocks, largely from new production, which has been greatly stimulated by the higher prices paid for gold. Further potential additions to the reported monetary gold stocks exist in the form of gold holdings of stabilization funds referred to above and in the form of gold hoarded because of uncertainty concerning prospective currency values during the past few years. Some gold appears to have been released from hoarding in the past month.



Reported Gold Holdings of Central Banks and Governments in July 1931 and October 1936, Expressed in Dollars (Data for October 1936 partly estimated)

At the end of October, the United States gold stock was about 140 per cent larger than in July 1931, reflecting the heavy import movements of the past few years, as well as the increased valuation of gold in this country, while the total reported gold stocks of 51 other countries, valued in dollars, showed an increase of approximately 65 per cent. The aggregate increase for 51 countries has reflected chiefly the increase in the value of gold, rather than an increase in the physical volume of gold held by those countries, but the changes in gold stocks of individual countries during the past five years have varied considerably. England, Belgium, Switzerland, Sweden, and Czechoslovakia have had considerable increases in the physical amount of their gold holdings, and the Netherlands and Rumania have had moderate increases. In France the monetary gold stock after a large increase from 1931 to 1934 declined rapidly to a level slightly lower than in 1931, and in Italy, Argentina, and Japan reductions have occurred.

Gold shipments from France and Holland to the United States ceased when the transfer of shipments arranged before September 26 was completed, but a fairly substantial movement of gold from England continued in October, apparently reflecting a continued movement of funds to this country for investment. Altogether, gold imports during October, including receipts of gold engaged for shipment in September, added about $180,000,000 to the monetary gold stock of the United States, raising the total to a new high level.

Excess Reserves and Money Rates

Largely as a result of the continued inflow of gold, together with Treasury disbursements of funds previously on deposit in the Reserve Banks, excess reserves of all member banks increased $320,000,000 further during the four weeks ended October 28 to $2,160,000,000. About half of the increase in excess reserves was in the principal New York City banks, the amount in those banks rising $155,000,000 to a total of $685,000,000 on October 28. Money rates in the New York market remained generally unchanged at about the same levels as have prevailed for several months.

	Oct. 31, 1935	Sept. 30, 1936	Oct. 30, 1936
Stock Exchange call loans	¾	1	1
Stock Exchange 90 day loans	*1	*1¼	*1¼
Prime commerical 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	1.67	1.67
Treasury securities:			
Maturing April (yield)	No yield	No yield	No yield
Maturing February 1938 (yield)	....	0.25	0.21
Average yield on Treasury notes (1-5 years)	0.79	0.80	0.81
Average yield on Treasury bonds (more than 5 years to earliest call date)	2.58	2.33	2.32
Average rate on latest Treasury bill sales 273 day issue	0.17	0.19	0.12
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

Member Bank Credit

The total volume of loans and investments in weekly reporting banks has shown some reduction during the past month. The reduction occurred chiefly in New York City; the total for reporting member banks in other principal cities remained virtually unchanged. In the New York City banks the classification of loans that includes borrowing for commercial and industrial purposes continued to increase moderately, but there were more than offsetting reductions in security loans and in holdings of United States Government and other securities. In reporting member banks in other principal cities there were further increases in commercial loans during the past month, but these increases were offset by reductions in security loans and in investments.

Despite the moderate reductions in total loans and investments, adjusted demand deposits increased further during October to new high levels, apparently due, directly or indirectly, to the inflow of foreign funds which was reflected by gold imports, and to Government disbursements.

Government Securities

Following some recession in Treasury bond prices in September, price movements were irregular during October and the average price of 15 issues not due or callable within 5 years closed the month at virtually the same figure as at the end of September. Variations in this average price held within a range of 0.19 of a point during October. The 2¾ per cent Treasury bonds of 1956-59, issued on September 15, were quoted at 101 1/32 on October 30, as compared with 101 5/32 at the end of September, and the 2⅞ per cent issue of 1955-60 was at 102 18/32 as compared with 102 25/32 on September 30. Prices of Treasury notes were likewise without much net change, and the average yield on all notes maturing between 1 and 5 years was virtually unchanged at 0.81 per cent.

Four weekly issues of Treasury bills in the amount of $50,000,000, in replacement of similar maturities, were sold in October at progressively lower average rates ranging from 0.162 to 0.120 per cent, as compared with 0.130 to 0.186 per cent on the September issues.

Bills and Commercial Paper

During October activity in the bill market continued at a low level. Dealers' offering rates remained at 3/16 per cent for maturities up to 90 days, ¼ per cent for 4 month bills, and 5/16 per cent for 5 and 6 month maturities, with bid rates in each instance 1/16 per cent higher. In September the volume of outstanding bills arising from domestic warehouse credits rose $6,000,000 further, import bills were up $3,000,000, and export bills increased $1,000,000. These advances were offset in part by a further decline of $3,000,000 in bills based on goods stored in or shipped between foreign countries, so that total bills outstanding, as shown in the accompanying table, increased $7,000,000, but were $13,000,000 less than a year ago. Acceptances held by accepting banks and bankers at the end of September amounted to $276,000,000, or approximately 88 per cent of all bills outstanding.

(Millions of dollars)

Type of acceptance	September 1935	August 1936	September 1936
Import	102	104	107
Export	77	63	64
Domestic shipment	8	10	10
Domestic warehouse credit	58	50	56
Dollar exchange	4	2	2
Based on goods stored in or shipped between foreign countries	79	79	76
Total	328	308	315

The active bank investment demand for commercial paper, which has prevailed for many months past, continued to absorb without delay the additional moderate amounts of business notes offered by commercial paper brokers during October. The prevailing rate for average grade prime four to six month commercial paper remained at ¾ per cent. Outstanding paper was reported to amount to $197,300,000 at the end of September, as compared with $205,200,000 a month ago and $183,100,000 a year ago.

Foreign Exchanges

Reductions were effected during October in the gold value of the Italian lira and the Czechoslovakian koruna. By decree effective October 5, the gold content of the lira was reduced 40.940 per cent, which is almost precisely equal to the reduction of 40.938 per cent in the gold content of the dollar at the end of January 1934. As a result of this action, the lira's former parity of 19 to the dollar was restored, and the lira was quoted in this market during the remainder of October at about 5.26½ cents. The Italian Government reserved the right to readjust downward the gold content of its currency by an additional 10 per cent. Measures were taken simultaneously to restrict speculation and to restrain a rise in living costs. Special compensatory duties on imports from countries with depreciated currencies were abolished, and the system of private clearings was discontinued. Authority was given to the Minister of Finance to suspend exchange restrictions wholly or in part, and provision was made for possible future alterations in quotas. The system of foreign exchange restrictions has so far been retained, however, and Italian currency continues to be made available to foreign tourists at a discount from the official exchange rate.

In Czechoslovakia, legislation was enacted on October 9 authorizing the government to reduce the gold content of the currency by from 13.3 to 18.7 per cent. This action followed an initial devaluation of 16⅔ per cent in February 1934, raising the total decrease in the koruna's gold value to a range of 27.75 to 32.23 per cent. With the resumption of exchange trading on October 10, the quotation for the Czechoslovakian koruna was established at a point midway between the upper and lower limits of devaluation.

The principal factors affecting the foreign exchange market during October were a heavy movement of funds to the former gold bloc countries during the first half of the month, and extensive British and continental buying of American securities. With the reopening of the Paris market on October 2 trading in French francs was resumed at about 4.66¼ cents per franc, and with the exception of a brief decline on October 22, the rate remained at or only moderately below this level throughout the month. The quotation for the Swiss franc was maintained in the vicinity of 23 cents with only minor variations, but the Dutch guilder moved over a wider range, declining from 55.00 cents at the end of September to a low of 52.50 cents on October 5 and rising irregularly thereafter to 54.14 cents on October 31. In the second half of the month, the movement of funds to Holland continued, but the private demand for Swiss francs subsided considerably, and, in the Paris market, there was some evidence of a small outflow of balances following the previous heavy inward movement.

Owing to the movement of funds from London to the Continent in the first half of the month, and to extensive buying of American securities by British investors and by European holders of sterling funds, the pound sterling showed a further recession during October. The pound-dollar rate declined from $4.94⅝ at the end of September to a low of $4.88⅞ on October 7 and remained close to this lower level during the balance of the month.

A notable feature of the month's developments in the foreign exchange market was the rather persistent strength of the dollar against foreign currencies. This tendency was largely the result of the substantial demand for dollars occasioned by foreign purchases of American securities referred to above. As a result of the accelerated movement of foreign capital to the United States for investment in our securities, gold has continued to be engaged abroad for shipment to this country during the period since the revaluation of former gold bloc exchanges, engagements of newly produced and dishoarded gold for shipment from London to New York having amounted to nearly $100,000,000 since September 26.

Gold Movement

Gold imports into the United States were in large volume during the first week of October, due to the arrival of gold engaged in France and Holland before their restrictions on gold transactions went into effect, as well as to receipts from England. In the succeeding week the amount imported declined considerably as the final shipments of gold arrived from Holland, and in the remaining part of the month the gold import movement into the United States was on a considerably smaller scale, being limited mostly to gold purchased in the London market and to gold coming from India and Canada.

For the month of October as a whole, imports affecting the monetary gold stock of the United States amounted to $184,000,000, of which $93,600,000 from France, $56,700,000 from England, $12,700,000 from Holland, $11,600,000 from Canada, $6,100,000 from India, $800,000 from Belgium, and $200,000 from Chile were received at New York, and on the West Coast $1,700,000 came from Australia and $500,000 from Hongkong. In addition to these imports, domestic newly mined and scrap gold continued to be received at the mints and assay offices in moderate volume. The effect of these additions of gold was only slightly offset by the net earmarking for foreign account at the Federal Reserve Bank of New York of $7,000,000 of gold withdrawn from the monetary stock, so that the gold stock of this country rose by an amount close to $200,000,000 during October.

Central Bank Rate Changes

The discount rate of the Bank of France was lowered from 5 to 3 per cent effective October 2, again to 2½ per cent effective the 9th, and then to 2 per cent effective the 16th. Other rates at the bank were simultaneously reduced, the rate for 30 day advances on short term Goverment paper equaling the discount rate, and the rate for 3 month advances on collateral being last reported (October 9) as 3½ per cent.

The Netherlands Bank reduced its discount rate from 3 to 2½ per cent, effective October 20, the loan rate moving at the same time from 3½ to 3 per cent. The Bank of Latvia lowered its discount rate for banks from 5½ to 5 per cent and the rate for others from 6 to 5½ per cent, effective November 1, representing the first change in rates since January 1, 1933.

Security Markets

During the first ten days of October there was a renewed strong advance in stock prices, and after some interruption around the middle of the month this advance continued through the third week of the month. The rise in the general level of stock prices was about 7 per cent, and at this point industrial shares on the average were at new highs since September 1930, and railroad stocks were the highest since September 1931, while public utility stocks remained somewhat below the levels reached in July and August of this year. In the closing ten days of October, however, prices of all groups of stocks showed a moderate irregular recession, but remained noticeably higher than at the opening of the month. The considerable rise in stock prices during the first three weeks of the month coincided with reports of heavy foreign buying of American securities, and the subsequent recession appears to have been associated in part with a reduction in the foreign demand for American securities. The volume of trading on the New York Stock Exchange during the first three weeks of the month was considerably larger than in recent months, but subsequently decreased somewhat.

Movements in domestic corporation bond prices on the whole were similar to those of stock prices in October, except that in the case of the highest grade issues there was virtually no recession following the preceding advances early in the month. General averages of bond prices rose between ½ and ¾ point in the first three weeks of the month, and then lost virtually all of the advance, reflecting declines in prices of medium grade issues, chiefly railroad issues which had had substantial increases over the past few months. Representative high grade issues ended the month moderately above quotations at the opening, while the lower grade issues were about the same when the month closed as at the beginning.

New Financing

Domestic corporation new security issues during October were considerably larger than in the previous month, amounting to $390,000,000, while State, municipal, and farm loan financing, totaling $80,000,000, was smaller than in September. The aggregate of all issues somewhat exceeded the volume in the previous three months. In October and in several other recent months, the volume of stock issues has been of some importance in the total of new financing.

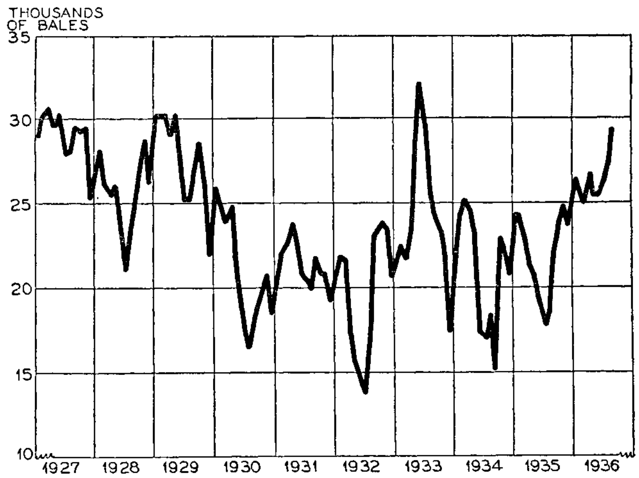
The increase in corporate issues during October was due largely to the $175,000,000 American Telephone and Telegraph Company 25 year refunding issue, priced to yield 3.19 per cent, of which $150,000,000 was offered for public subscription and the remainder was retained for investment by the pension fund of the telephone system. This represented the largest single piece of financing under the Securities Act of 1933. Following the sale of this refunding issue, the company offered to use the proceeds to pay off immediately the issues called for redemption some months hence, interest to be paid in full for the period until the call date.

An issue of $35,000,000 of Pacific Gas and Electric Company 30 year refunding 3½ per cent bonds sold during the month, following several previous issues by the same company, affords an interesting illustration of the decline in the cost of long term borrowing that has occurred during the past year and a half. The most recent issue of this company completed a refunding program of $250,000,000 which began in March 1935, when 29 year bonds were sold by the company on a 4.00 per cent yield basis. Subsequent refunding issues were put out at progressively lower yields, and by March of this year the yield offered on the new issue was down to 3.60 per cent, and on the October issue the yield was further reduced to 3.35 per cent. Within a comparatively short period, therefore, the interest cost of borrowing for this company has been reduced by about two-thirds of one per cent.

The City of New York came into the market during October with $30,000,000 of 1 to 5 year bonds, carrying interest at 0.50 to 1.50 per cent, according to maturity. The interest cost to the City on this issue reached a new low rate of 1.1177 per cent for this class of borrowing. No general reoffering of the bonds was made by the banking syndicate which obtained the issue.

Production

A seasonal rise in the general level of industrial production appears to have taken place in October. The rate of steel output increased to about 75 per cent of capacity around the middle of the month from the September average of 73 per cent, but subsequently declined slightly. Demand for steel continued to find support from a wide variety of consuming lines, although some reduction was reported late in the month in the demand for heavy steel for construction projects. Automobile production, which apparently reached its usual seasonal low point toward the end of September, gained rapidly during October as manufacturers entered upon or accelerated assembly of 1937 models. Cotton textile mills continued to be extremely busy producing goods against a backlog of orders that had been largely expanded at the end of September, and additional orders continued to flow in. It is reported that the mills hold orders equivalent to several months' production at recent rates. The record high level of output of the latter half of September was maintained by electric generating plants during the first three weeks of October, and bituminous coal production rose seasonally.



Average Daily Consumption of Cotton by Cotton Mills

The seasonally adjusted index of industrial production of the Board of Governors of the Federal Reserve System advanced one point further during September to 109 per cent of the 1923-25 average, the highest figure since November 1929. This compares with 108 in the two preceding months and 91 a year ago. The gain in September was accounted for by a rise in the index of mineral production from 98 to 101, growing out of a greater than seasonal increase in the production of coal; the adjusted index of manufactures was unchanged at 110. Steel production was maintained at about the same level as in August, but automobile output declined, owing to the conclusion of production of 1936 models and the preparation of parts and equipment for the new models, though the decline was not so sharp as in periods of model change during the last few years. As in other years cotton mill operations increased between August and September, cement production increased, the rate of generation of electric power rose seasonally to a new high point, and the manufacture of shoes also reached a new high point, although the gain over August was not as large as usual. Rayon deliveries, which had increased sharply in July and August, decreased, however, and production of wheat flour was on a definitely lower level than in the preceding month. A seasonal decrease occurred in machine tool orders, following the sizable decline in August.

During the first nine months of this year cotton mills consumed the third largest amount of cotton for any such period on record, the only years of larger consumption being 1927 and 1929. As shown in the accompanying diagram, cotton consumption in the first half of this year had maintained the highest rate since 1929, and the further sharp rise in the third quarter carried the rate in September to within 3 per cent of the peak of 1929, and to within 9 per cent of the peak of June 1933. Although the highest rate of consumption for any single month occurred in 1933, the peak in that year was the result of a precipitous rise and was followed by a sharp decline.

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

	1935	1936		
	Sept.	July	Aug.	Sept.
Metals				
Pig iron	56	77	81	86
Steel	72	95	101	100
Lead	48	59	49	47
Zinc	68	87	81	79
Automobiles				
Passenger cars	79	106	98	117*p*
Motor trucks	93	108	106	119*p*
Fuels				
Bituminous coal	61	86	83	86*p*
Anthracite coal	78	71	57	70*p*
Petroleum, crude	69	68	70	69*p*
Petroleum products	70	71	72	
Electric powerr	84*r*	92*r*	95	94*p*
Textiles and Leather Products				
Cotton consumption	79	105	106	105
Wool consumption	106	113	120	
Silk mill activity	71	61	67	64
Rayon deliveries*	114	119	134	118
Shoes	95	113	112*p*	109*p*
Foods and Tobacco Products				
Meat packing	73	89	96	94
Wheat flour	86	98	102	77
Refined sugar deliveries	83	57	57	
Tobacco products	81	93	89	94
Miscellaneous				
Cement	39	58	61	65
Tires	67	94	95	
Newsprint paper	73	71	73*p*	73*p*
Machine toolsr	87*r*	153*r*	120*r*	119*r*

p Preliminary. *r* Revised. * For quarter ended.

Employment and Payrolls

Employment in New York State factories showed a seasonal increase of more than 4 per cent from the middle of August to the middle of September, while payroll expenditures, with a rise of approximately 2 per cent, expanded considerably less than is customary at this time of the year. As compared with September 1935, the number of employees showed an increase of 8 per cent and payrolls an increase of 10 per cent. During September seasonal increases in employment were particularly pronounced in the clothing and food products industries, and substantial gains were reported also by the metals and machinery and building material industries. The increase in the number of workers was general throughout the State.

For the country as a whole private employment in the manufacturing and nonmanufacturing industries covered by reports to the Department of Labor increased by 355,000 persons from the middle of August to the middle of September, and approximately 6,000,000 more workers were reported employed than at the low point of the depression in 1933. Responding to seasonal influences, factory employment rose approximately 2 per cent to the highest point since June 1930. The increase in the number of workers was fairly general, 69 of the 90 manufacturing industries surveyed by the Department of Labor reporting employment gains. The nondurable goods industries showed somewhat greater increases in employment than the durable goods industries, owing largely to seasonal increases in the number of workers in the clothing, food, and chemical industries. In the durable goods group, gains in the metals and machinery industries were partially offset by a decrease in automobile employment of 8.5 per cent occasioned by temporary shutdowns incident to the introduction of new models.

Among the nonmanufacturing industries, 11 of the 16 groups covered by the Department of Labor showed gains in employment, and the remaining groups reported only small reductions. Seasonal influences affecting retail trade and coal mining accounted for the largest part of the increase in employment in the nonmanufacturing industries.

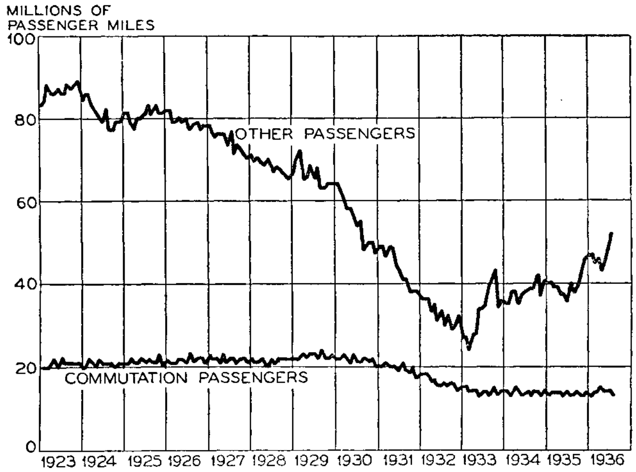
Public employment was increased during September, when the Works Progress Administration provided jobs for approximately 100,000 additional workers in the drought areas. In the country as a whole more than 3,200,000 wage earners were employed in September on the various projects.

Indexes of Business Activity

During the first three weeks of October, shipments of bulk freight over the railroads rose about 4 per cent more than seasonally to a point nearly equal to the level of last February and, with that exception, to the highest point since January 1931. Loadings of merchandise and miscellaneous freight showed about the usual seasonal expansion and were at the highest level since the fall of 1931. In most cities surveyed by the Department of Commerce, retail trade in October continued higher than a year ago, despite the warm weather in the first part of the month which deterred fall buying of some lines of merchandise, and wholesale trade also continued to increase as demand for goods for the holiday trade began to get under way. In the New York Metropolitan area, department store sales in the first half of the month showed somewhat less than the usual seasonal expansion over September, but were 8 per cent above a year ago.

In September an increase occurred in general business activity. More than the usual seasonal increases occurred in shipments of freight over the railroads, department store sales in this district, mail order house sales, and the volume of check transactions throughout the country. A preliminary estimate places the number of new passenger car registrations at 209,000 units, or 54,000 units less than in August, but this decrease was substantially less than frequently occurs in the period prior to the introduction of new models, and sales were the largest for any September since 1929.

The course of passenger travel on the railroads during the past 14 years is indicated in the accompanying diagram, which shows the number of commutation and other passengers carried by Class I railroads multiplied by the mileages traveled, with adjustment for the usual seasonal movements. Following March 1933, passenger business other than commuter traffic began to show the first upward movement of notable duration since the post-war peak in 1919 and 1920, and in July 1936 was more than double the March 1933 low figure. This upward tendency may be attributed to better general business conditions, inducements offered by the railroads in the form of special excursions and improved service, and more recently to widespread reductions in rates, which apparently are tending to overcome the long term decline in passenger traffic caused by the competition of motor vehicle transportation, and, to a much smaller extent, of airplane travel.



Passenger Traffic of Class I Railroads Measured in Passenger Miles (Latest data are for July)

Commutation traffic on the railroads, however, has shown no such increase as other passenger traffic. From 1923 through 1930, commuter transportation remained fairly constant, as the tendency for people to move to the suburbs offset the inroads of other means of transportation. In 1931 and 1932, however, a decline of about one-third occurred, and the number of commuters has since remained virtually unchanged.

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

	1935	1936		
	Sept.	July	Aug.	Sept.
Primary Distribution				
Car loadings, merchandise and misc.*r*	64*r*	72*r*	72*r*	73*r*
Car loadings, other*r*	65*r*	80*r*	77*r*	78*r*
Exports	53	52	51	54*p*
Imports	68	81	73	78*p*
Distribution to Consumer				
Department store sales, U. S.*r*	83*r*	88*r*	88*r*	88*r*
Department store sales, 2nd Dist.	74	73	72	74
Chain grocery sales*r*	71*r*	73*r*	72*r*	68*r*
Other chain store sales*r*	89*r*	95*r*	96*r*	96*r*
Mail order house sales*r*	82*r*	91*r*	92*r*	97*r*
Advertising	58	65	65	65
New passenger car registrations	82	97	90*p*	102*p*
Gasoline consumption	80	92	88	
General Business Activity				
Bank debits, outside New York City	64	65	65	66*p*
Bank debits, New York City	43	41	39	41
Velocity of demand deposits, outside New York City	68	71	70	67
Velocity of demand deposits, New York City	44	40	40	42
New life insurance sales	57	54	52	55
Factory employment, United States	83	89	90	90*p*
Building contracts	37	55	57	46*p*
New corporations formed in N. Y. State	63	61	56	60
General price level*	147	154	156	156*p*
Composite index of wages*	188	193	194	191*p*
Cost of living*	142	143	142	143*p*

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

Foreign Trade

Total merchandise exports from this country in September were valued at $220,000,000, while imports amounted to $216,000,000, both figures representing more than seasonal increases from the previous month's totals. Compared with a year ago, exports increased 11 per cent and imports 33 per cent, and the dollar amounts were larger than for September of any year since 1930. The excess of exports amounting to $4,000,000 was small in comparison with the $37,000,000 export surplus of September 1935, however, and was only the third monthly export balance this year.

Shipments abroad of unmanufactured cotton, which showed large seasonal gains in September, were 20 per cent above a year ago in value, and accounted for one-third of the gain in total exports. The value of exports of aircraft and parts was 68 per cent larger than in September 1935. Increases of 30 to 40 per cent occurred also in the value of exports of agricultural, electrical, and industrial machinery. On the other hand, the number and value of passenger automobiles and motor trucks shipped abroad during September continued to be smaller than in 1935. Likewise, exports of unmanufactured tobacco, refined mineral oils, and fertilizers declined in quantity and value from a year ago.

Among the imports, increases in September occurred in a wide variety of products. An exceptionally large gain occurred in imports of sugar, which were more than twice the comparatively small value of September 1935. Receipts of crude rubber and unmanufactured tobacco were also nearly double the corresponding values of a year ago, although the quantities of these imports showed smaller gains. Imports of wood pulp, newsprint paper, nickel, burlaps, raw and manufactured cotton, meat products, grains, and fertilizers all increased substantially in quantity and value over a year ago. The quantity and value of imports of tin, copper, and coffee, however, were smaller than in September 1935. Imports of raw silk and unmanufactured wool, although smaller in volume, were larger in value than a year ago, due to increases in their prices.

Commodity Prices

Although divergent changes occurred in a number of principal commodities during October, the general average of wholesale prices tended toward moderately lower levels. Moody's index of 15 raw products reached a level approximately 4 per cent below the August high, but as a result of the pronounced advance which occurred between June and mid-August the current level remains about 9 per cent above a year ago. Among the commodities showing declines during October were hogs, the average price of which declined 81 cents further to $9.24 a hundredweight, a level about $2.25 a hundredweight below the year's high reached in August. The recent downward movement is attributed largely to a seasonal increase in marketings. A moderate advance was shown in prices of steers during the month, however, despite large marketings of cattle. The price of hides decreased 7/8 cent to 14 5/8 cents a pound, following the previous month's advance. Cotton prices receded in October, and the spot quotation declined sufficiently to cancel more than one-half the September advance. A small decline also occurred in rayon prices. The price of raw silk, on the other hand, rose 15 1/2 cents further during the month to $1.89 a pound, the highest since last February, but subsequently receded slightly. A moderate advance raised the spot quotation of rubber to 17 1/8 cents a pound, the highest since November 1929.

Grain prices moved irregularly during October, and were apparently little affected by the October 1 Government crop report which indicated a slight reduction during September in spring wheat production, but which increased corn crop prospects about 50,000,000 bushels from the September estimate. Cash wheat at Minneapolis rose $3\frac{7}{8}$ cents during the first half of October to $\$1.48\frac{7}{8}$ a bushel, a level only $\frac{1}{2}$ cent below the August high, but later receded to close the month at $\$1.45\frac{7}{8}$, slightly above the end of September. Cash corn moved irregularly during October, closing at $\$1.08\frac{3}{4}$ a bushel, thus showing a small net decline for the month.

During the latter part of October the price of copper in foreign markets rose to as high as $10.32\frac{1}{2}$ cents a pound, reflecting an increased demand, and on October 26, the domestic price was advanced $\frac{1}{4}$ cent to 10 cents a pound, the highest since April 1931. Among the other principal metal prices, scrap steel at Pittsburgh declined 75 cents to $17.50 a ton.

Building

Total building and engineering contracts reported by the F. W. Dodge Corporation for the New York and Northern New Jersey area declined 35 per cent during September, owing largely to a sharp reduction in contracts for publicly financed projects which had been placed in large volume in July and August. The total value of contracts awarded in September, however, was practically the same as in June, and was slightly larger than a year ago. Contracts for all of the principal types of building with the exception of factory construction were smaller in September than in August. For the first nine months of 1936, however, total contracts were nearly 70 per cent in excess of those placed in the same period last year.

The September reduction in building contracts for the 37 States, covered by the full report of the F. W. Dodge Corporation, was less marked than in the New York area, total contracts showing a decrease of 15 per cent.

Data for the first three weeks of October showed a decline of 5 per cent from the September rate in total building and engineering contracts, but after seasonal adjustment this bank's preliminary building index remained unchanged. A more than seasonal reduction in public works and utility contracts and a small unseasonal recession in residential building offset a gain in other nonresidential contracts which usually decline rather sharply at this time of the year.

Department Store Trade

During the first half of October, total sales of the reporting department stores in the Metropolitan area of New York were 8.4 per cent higher than in the corresponding period a year ago, but somewhat less than the usual seasonal expansion appears to have occurred from September to October. The Northern New Jersey department stores reported a 14.4 per cent year to year increase in sales while the New York City stores showed a 7.3 per cent advance.

Total September sales of the reporting department stores in this district were 8.2 per cent larger than last year. Business in the second half of the month was considerably better than during the first two weeks, when a decline of 1.1 per cent in sales occurred, and as a result a more than seasonal advance over August occurred for the month as a whole. After allowing for differences in the number of shopping days between this year and last, however, the gain in sales over a year ago recorded in September was the smallest in nearly a year. With the exception of the Northern New Jersey area, all groups of department stores recorded less favorable year to year comparisons in average daily sales than in August. Average daily sales of the leading apparel stores in this district showed the smallest gain over a year ago since June 1935.

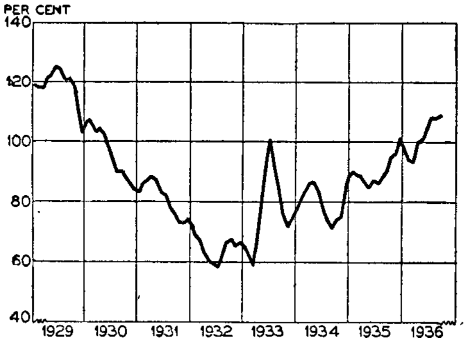
Locality	Percentage change September 1936 compared with September 1935		Per cent of accounts outstanding August 31 collected in September	
	Net sales	Stock on hand end of month	1935	1936
New York	+ 6.9	+ 5.7	45.7	45.5
Buffalo	+10.8	+14.1	45.7	46.9
Rochester	+ 9.6	+ 0.4	42.2	43.4
Syracuse	+ 4.5	+ 0.4	34.0	36.4
Northern New Jersey	+15.9	+ 8.6	38.5	39.3
Bridgeport	+ 5.8	+14.6	36.1	39.4
Elsewhere	+ 7.3	— 3.9	29.1	31.6
Northern New York State	+ 5.4	......	....	....
Southern New York State	+ 2.4	......	....	....
Central New York State	+ 8.7	......	....	....
Hudson River Valley District	+12.3	......	....	....
Capital District	+ 8.7	......	....	....
Westchester and Stamford	+ 1.7	......	....	....
Niagara Falls	+12.3	......	....	....
All department stores	+ 8.2	+ 6.0	41.8	42.4
Apparel stores	+10.2	+ 6.6	38.8	39.3

Wholesale Trade

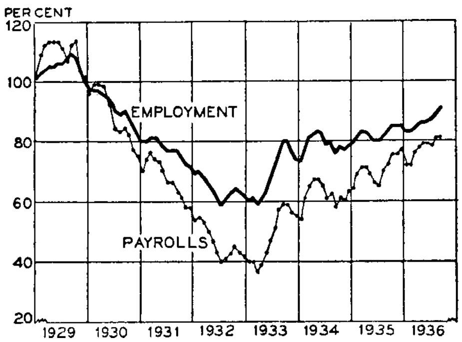
During September total sales of the reporting wholesale firms in this district averaged 9.8 per cent higher than last year, a slightly smaller increase than in August. Jewelry firms recorded the most substantial gain in sales since May 1934, and the shoe and paper concerns registered the most favorable year to year comparisons in three months. Sales of the grocery and stationery firms also showed larger advances than in August, and yardage sales of silk goods were moderately higher than last year, following a rather substantial reduction in the previous month. The men's clothing, cotton goods, hardware, and diamond concerns, however, reported less favorable comparisons in sales than in August.

Commodity	Percentage change September 1936 compared with September 1935		Per cent of accounts outstanding August 31 collected in September	
	Net sales	Stock end of month	1935	1936
Groceries	+12.4	+ 8.4	87.4	91.4
Men's clothing	— 0.6	......	46.4	42.0
Cotton goods	+ 5.8	......	40.9	44.1
Rayon and silk goods	+ 6.6*	......	53.3	62.8
Shoes	+ 5.7	......	35.1	38.7
Hardware	+12.7	+13.4	46.7	46.0
Stationery	+10.6	......	54.0	61.4
Paper	+10.9	......	43.2	54.0
Diamonds	+22.3	+17.3	24.9	22.6
Jewelry	+60.0	+149.6		
Weighted average	+ 9.8	......	56.7	58.8

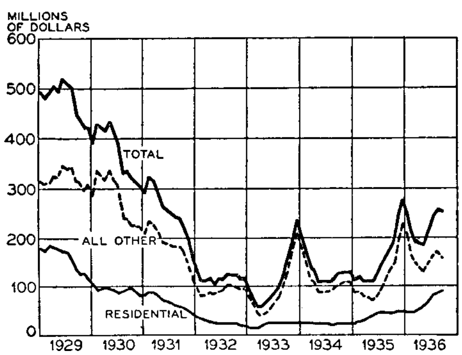
* Quantity figures reported by the National Federation of Textiles, Incorporated, not included in weighted average for total wholesale trade.



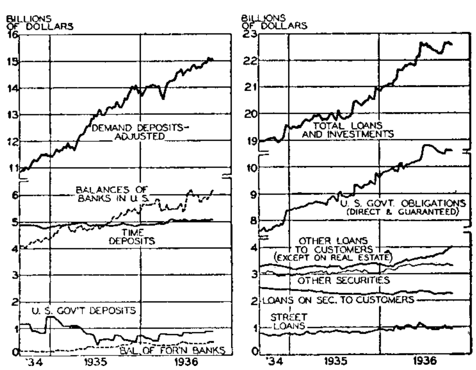
Index Number of Production of Manufactures and Minerals Combined, Adjusted for Seasonal Variation (1923-25 average=100 per cent)



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



Value of Construction Contracts Awarded (Three month moving averages of F. W. Dodge Corporation data for 37 States, adjusted for seasonal variation)



Wednesday Figures for Reporting Member Banks (Latest figures are for October 14)

Business Conditions in the United States

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

VOLUME of industrial production was maintained in September and employment at factories increased seasonally. Distribution of commodities to consumers increased. Commercial loans of city banks showed further growth.

Production and Employment

Industrial output in September, as measured by the Board's seasonally adjusted index, was 109 per cent of the 1923-1925 average, approximately the level of the two preceding months. Output of steel was about the same as in August and in the first three weeks of October the rate of activity rose to a higher level than at any time since 1930. Automobile production showed a sharp seasonal decline in September and a considerable seasonal advance in the first three weeks of October. Production of lumber and cement showed a further rise and increases in activity were also reported at meat packing establishments and at cotton and silk textile factories. At woolen mills there was little change in production although an increase is usual in September. Output of coal increased more than seasonally, and crude petroleum production continued in large volume.

Factory employment increased seasonally in September and payrolls were maintained at the August level. The number employed in most industries producing durable goods continued to increase, while at automobile factories there was a seasonal decline. Employment decreased at woolen mills and showed a smaller increase than is usual at this season at cotton mills and at establishments producing women's clothing.

Value of construction contracts awarded, as reported by the F. W. Dodge Corporation, declined somewhat further in September from the relatively high level reached in the middle of the year. There was a decrease in awards for residential building, reflecting chiefly a smaller volume of contracts for apartment construction which in August had included several large publicly financed projects. Awards for nonresidential work declined, partly as a result of a reduction in contracts for public works and utilities which have been in large volume during recent months.

Agriculture

Crop conditions improved somewhat from September 1 to October 1, according to the Department of Agriculture, but estimates for corn and many other crops are still considerably below the harvests of last year. The cotton crop is estimated at 11,600,000 bales, an increase of 500,000 bales from the estimate made a month earlier and of 1,000,000 bales from the 1935 crop. Total cash farm income, including all Government payments, is estimated by the Department of Agriculture at $7,850,000,000 for the calendar year 1936 as compared with $7,090,000,000 in 1935.

Distribution

Distribution of commodities to consumers increased by more than the usual amount in September, following a less than seasonal rise between July and August. Sales at department and variety stores and by mail order houses serving rural areas were in larger volume in September.

Volume of freight carried by railroads increased, reflecting larger shipments of coal, ore, and miscellaneous freight and a decline in loadings of grain.

Commodity Prices

The general level of wholesale commodity prices has shown little change in the last two months. From the middle of September to the third week in October sugar and butter prices declined, and there were decreases also in prices of hogs and pork, as is usual at this season. Price advances were reported for leather and coke and higher prices for some finished and semifinished steel products became effective on October 1.

Bank Credit

Loans of reporting member banks in leading cities, other than loans on securities, continued to increase in September and the first half of October. On October 14 the volume of these loans was more than $400,000,000 larger than on July 29. About half of this increase was at New York City banks and the remainder principally at banks in Western and Southern cities. Holdings of United States Government obligations have declined in recent weeks at New York City banks and have increased somewhat at other banks. Deposits of reporting banks have continued to increase.

Excess reserves of member banks increased by $410,000,000 in the five weeks ended October 21, reflecting a reduction of $300,000,000 in Treasury holdings of cash and balances at the Reserve Banks and an increase of $250,000,000 in monetary gold stock, the effects of which were partially offset by a seasonal increase in money in circulation and a further growth in required reserves.