MONTHLY REVIEW
of Credit and Business Conditions
Second Federal Reserve District

Federal Reserve Bank, New York *December 1, 1936*

Money Market in November

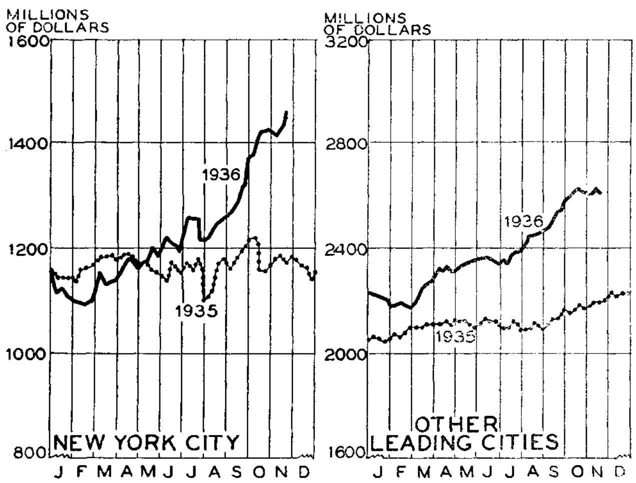
The principal change in money rates during the past month has been a further decline in yields on long term securities, apparently reflecting renewed pressure of idle funds to find employment. Yields on Government bonds, after fluctuating irregularly since early September, declined to new low levels for many years, and yields on high grade corporation and municipal bonds showed similar movements. The average yield on Treasury bonds declined to 2.12 per cent, as compared with about 2.60 per cent a year ago, nearly 3 per cent two years ago, and a high point of nearly 4.50 per cent early in 1932. Average yields on Aaa corporation bonds, which are computed from issues of longer average maturity than Treasury bonds, declined to about 3.15 per cent, as compared with about 3.50 per cent a year ago, 3.85 per cent two years ago, and a high point of about 5.30 per cent five years ago.

Reports from member banks in the principal cities indicated that the strength of the security markets in November was due chiefly to demands for investments from sources other than these member banks. Government security holdings of the reporting banks, in fact, declined slightly in November and reached the lowest levels since the early part of June. Holdings of other securities also showed some reduction, one factor in which appears to have been the repayment of temporary State and municipal borrowings.

The decline in investments of the reporting member banks during the past month was partly offset by a further rise in loans other than loans on securities. Loans in this category, a major element of which is commercial borrowing, reached the highest level since before the bank holiday in 1933. For some time after business recovery got well under way, the volume of commercial loans in the banks continued to decline, presumably due to the repayment or writing off of old loans, but during the past year there has been a marked upturn, as the accompanying diagram indicates. The margin over a year ago in the volume of commercial loans has grown steadily wider in recent months, both in New York City and in other reporting banks. On November 18 the increase over a year previous in New York City amounted to $281,000,-000, or about 24 per cent, and the increase for all banks in 100 other principal cities amounted to $402,000,000, an increase of 18 per cent.

One explanation that has been advanced for the expansion in such loans is increased bank holdings of finance company paper, as it is known that there has been a considerable increase in the amount of credit extended by such companies, primarily to finance sales of automobiles, but also to finance sales of various other things such as heating and ventilating apparatus, mechanical refrigerators, and other household appliances. Published statements of 15 of the principal finance companies indicate that on June 30, 1936 the aggregate amount of credit extended by such companies was about $1,200,000,000, an amount greater than in 1929 and three or four times the volume in 1932. While a substantial amount of this business is financed through the use of the capital of the finance companies, nearly two-thirds of the funds are obtained through bank loans or through the sale of the notes of the finance companies to banks and other investors and investing institutions. On June 30, 1936 the 15 companies referred to above showed notes and loans payable amounting to $800,000,000. A year previous the corresponding figure was somewhat over $500,000,000, indicating an increase of more than 50 per cent within the past year.

While increased holdings of finance company paper have no doubt accounted for part of the increase in the loans of the reporting member banks, it appears that the increase in such holdings was probably not the major element in the increase in loans. Some direct evidence on this point has been obtained from the reporting banks in New York City. The information supplied by these banks indicated that their holdings of finance company paper were not large and had shown only a slight increase this



Loans of Reporting Member Banks in New York City and Other Leading Cities, Other than Loans on Securities, Real Estate Loans, Loans to Banks, and Paper Purchased in the Open Market

year. Much more important elements in the increase in the loans of these banks were commodity loans and extensions of credit to a variety of commercial and industrial businesses. In some cases the banks reported that the proceeds of loans were used to retire outstanding bonds or preferred stocks, but there have also been cases this year in which the proceeds of new security flotations were used to repay bank loans. Finance company paper is widely distributed, and a considerable volume undoubtedly is held by institutions other than the reporting member banks in the principal cities.

Excess Reserves

Excess reserves of member banks have continued to increase during the past month, due partly to the continued inflow of gold from abroad and partly to Government expenditures of funds previously accumulated in the Federal Reserve Banks and in the Treasury, and on November 18 reached a new high level since the 50 per cent increase in the percentages of required reserves announced by the Board of Governors of the Federal Reserve System was made effective on August 16. The total for the country as a whole was approximately $2,270,000,000, of which the New York City banks held about $765,000,000. On November 21, following meetings of the Federal Advisory Council, the Presidents of the Federal Reserve Banks, and the Federal Open Market Committee, the Chairman of the Board of Governors issued the following statement:

> The Board of Governors of the Federal Reserve System met during the week with the Federal Advisory Council and later with the Presidents of the Federal Reserve Banks. In addition, there was a meeting of the Federal Open Market Committee.
>
> In the course of these meetings, the business and credit situation was fully reviewed. Particular attention was given to the fact that since the Board's action last July in raising reserve requirements, there has been a continued and substantial increase of member bank reserves, resulting principally from a further large inflow of gold from abroad, so that member bank reserves are once more far in excess of legal requirements and of present or prospective needs of commerce, industry and agriculture.
>
> Those charged with responsibility for credit and reserve policy are now giving careful consideration to the various problems raised by the effects of these reserves with a view to taking such action at such time as it appears to be necessary in the public interest.

Between August 12 and November 18 member bank reserve balances increased by $735,000,000. Approximately $150,000,000 of that amount was absorbed by increases in reserve requirements caused by further expansion of deposits, and the remainder was added to excess reserves. The principal source of this further increase in member bank reserves was the heavy inflow of gold during this period; the remainder of the increase was due largely to Treasury disbursements of funds previously accumulated in Government deposits in the Reserve Banks.

Near the end of November a temporary reduction in excess reserves was caused by holiday and month-end currency demands, and there is usually a substantial further seasonal increase in currency requirements during December. In January, however, a heavy return flow of currency to the banks occurs and bank reserves usually show a correspondingly rapid increase.

Money Rates

Aside from the further decline in yields on long term securities previously mentioned, and some decline in yields on securities of intermediate maturity, such as Treasury notes, money rates remained generally unchanged during November.

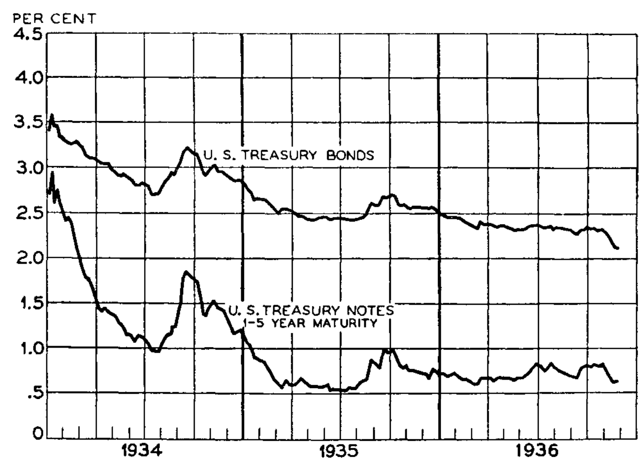
	Nov. 29, 1935	Oct. 30, 1936	Nov. 27, 1936
Stock Exchange call loans	¾	1	1
Stock Exchange 90 day loans	*1	*1¼	*1¼
Prime commercial paper—4 to 6 months	¾	¾	¾
Bills—90 day unindorsed	⅛	3/16	3/16
Customers' rates on commercial loans (Average rate of leading banks at middle of month)	1.67	1.67	1.71
Treasury securities:			
Maturing April (yield)	No yield	No yield	No yield
Maturing February 1938 (yield)	....	0.21	0.04
Average yield on Treasury notes (1-5 years)	0.73	0.81	0.62
Average yield on Treasury bonds (more than 5 years to earliest call date)	2.58	2.32	2.12
Average rate on latest Treasury bill sales 273 day issue	0.13	0.12	0.08
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

Government Securities

The Government security market was active and strong during nearly the entire first three weeks of November. Immediately following Election Day, an active demand for Treasury securities and Government guaranteed issues developed, and as a result of an uninterrupted rise from November 4 to November 19 the average price of Treasury bonds not due or callable within 5 years advanced 1¾ points to a new high level. Virtually all of the outstanding Treasury bond issues reached new high quotations during this period. This advance was reflected in a drop of 0.20 per cent in the average yield on Treasury bonds to a new low of 2.12 per cent, as is indicated in the diagram. The yield on Treasury notes of 1 to 5 year maturity likewise showed a large decline, reaching 0.61 per cent on November 19, as compared with 0.81 per cent on November 2.

In the latter part of November, the Government security market was subject to more irregularity than in



Average Yields on United States Treasury Bonds and Notes (Averages computed by Federal Reserve Bank of New York for all Treasury bonds not due or callable within 5 years and all Treasury notes maturing between 1 and 5 years)

the preceding part of the month, but on balance little net change occurred. During this period the Treasury announced that its December 15 financing would include the refunding of $429,000,000 of Treasury notes due February 15, 1937, in addition to $358,000,000 of Treasury notes and $400,000,000 of Treasury bills due December 15.

Treasury securities actually floated during November were composed of four weekly $50,000,000 issues of Treasury bills, replacing similar maturities. The average yield on these bills moved downward to 0.084 per cent for the November 25 issue, which is close to the lowest rate ever placed on Treasury bills. On November 27, the Treasury announced a $50,000,000 issue of 104 day Treasury bills, dated December 2 and maturing March 16, 1937, in addition to a $50,000,000 issue of 273 day bills to replace the December 2 maturity. The redemption of maturing bills on March 16 will act as a partial offset to the losses of funds to member bank reserves occasioned by the March quarterly income tax collections which usually reach their peak on the 16th.

Bills and Commercial Paper

Dealers' purchases and sales of bills during November remained within the same narrow limits that have prevailed for some time past, and the rate structure of the bill market also was unchanged. During October the outstanding amount of bills arising from domestic warehouse credits rose $9,000,000 further, and, as in September, this was the principal change in total outstandings. Most of the rest of the increase for October occurred in import and in export bills, both of which showed increases of approximately $3,000,000. The total volume of bills outstanding at the end of October, although $15,000,000 larger than in September, was $33,000,000 smaller than a year ago, chiefly as a result of a reduced amount of domestic warehouse bills. Accepting institutions held $296,000,000 of bills on October 31, or about 90 per cent of the total outstanding.

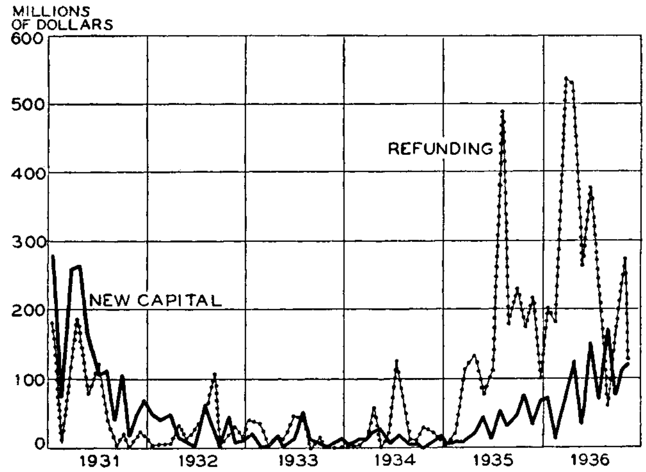
(Millions of dollars)

Type of acceptance	Oct. 1935	Sept. 1936	Oct. 1936
Import	105	107	110
Export	75	64	67
Domestic shipment	10	10	10
Domestic warehouse credit	88	56	65
Dollar exchange	3	2	1
Based on goods stored in or shipped between foreign countries	82	76	77
Total	363	315	330

No change occurred during November in the active demand by bank investors for commercial paper, and the supply of new paper remained small. The prevailing rate for average grade prime four to six month commercial paper remained at ¾ per cent. A total of $198,800,000 of paper was outstanding at the end of October, compared with $197,300,000 a month earlier and $180,400,000 a year ago.

New Financing

The total of new securities issued during November fell short of the October volume, principally because no issue of a size comparable with the $175,000,000 American Telephone and Telegraph refunding issue of October



Domestic Corporation Security Issues for New Capital and Refunding Purposes (Preliminary data for November)

reached the offering stage. Another American Telephone and Telegraph Company refunding issue for $160,000,000 was registered with the Securities and Exchange Commission in November, but public offering of these securities will not be made until after the close of the month. New issues during November included approximately $235,000,000 of domestic corporation financing, $95,000,000 of State, municipal, and farm loan issues, and a $23,500,000 refunding issue of the Argentine Government, making a total of over $350,000,000 for the month.

For some months past the amount of new capital raised by domestic corporations through the sale of security issues has been increasing gradually, and as the accompanying diagram indicates, has reached the largest volume since 1931. Meanwhile, refunding issues this year have been in record volume. Although the amount of new capital issues has increased somewhat this year, the average monthly amount has been only about one-fourth as large as the average for the years 1925 to 1928, inclusive. Included in the totals of new capital shown in the diagram are not only amounts raised by corporations for the financing of plant and equipment additions and improvements, but also amounts used to retire bank loans that were made during the period of stagnation in the security markets for the purpose of furnishing working capital and to some extent for plant and equipment expenditures. Also included in the new capital totals are several recent issues by finance companies, part of the proceeds of which were to retire temporary borrowings obtained originally from banks.

Security Markets

Industrial stock prices advanced nearly 4 per cent further in the week following the National election to new highs since September 1930, while railroad stocks underwent little net change, and public utility shares showed some decline. In the succeeding week price movements developed considerable irregularity, and beginning on the 18th a decline in stock prices got under way. This declining tendency was evident on a number of days in the latter part of the month, so that by the end of November stock prices showed mixed comparisons with quotations at the opening of the month. In the case of the railroads there was a net decline for the month of about 5 per cent, the utilities were virtually unchanged, and the industrials had a net advance of 1¾ per cent.

Foreign buying of American securities continued at a rapid rate in the first part of November, but after the matter of the inflow of capital from abroad became the subject of some discussion, foreign security buying declined and on some days was reported to have been exceeded by sales. Throughout the month, however, the turnover of stocks on the New York Stock Exchange was comparatively heavy, the average daily turnover amounting to about 2,700,000 shares, the largest since February.

High grade domestic corporation bond prices advanced further during November, accompanying the strength in United States Government bonds. In fact, high grade bonds advanced more and the rise was better sustained than in the case of medium and lower grade issues, although prices of the low grade issues, for the most part, also increased somewhat. Medium grade railroad issues were an exception to the rising trend in bond prices, continuing to decline as in October, following the large advances of previous months.

Capital Movements Between United States and Other Countries

Weekly statistics of capital movements between the United States and foreign countries, based upon reports furnished to the Federal Reserve Banks by the principal banking institutions and security dealers throughout the United States pursuant to Treasury regulations, have been published by the Treasury Department for the period from the beginning of 1935 to the end of September 1936. It is the intention of the Treasury to continue the publication of these figures at quarterly intervals.

A summary table is presented below showing the movement of capital between the United States and foreign countries, as reflected in the weekly reports from banks and brokers, for the full year 1935 and the first nine months of 1936. The reported net movement of capital to this country during this whole period of twenty-one months amounted to $2,282,000,000, of which $1,353,000,000, or 59 per cent, consisted of an inflow of short term banking funds, while the remainder —$929,000,000—occurred through security transactions. About one-third of the net inflow of capital represented repayment of foreign indebtedness to this country, including repayments of short term foreign indebtedness and purchases of foreign securities by foreigners. A considerable part of the remainder represented increases in foreign short term balances here, and about 28 per cent of the total movement represented foreign purchases of American securities.

Of the total inflow of banking balances, $438,000,000, or 32 per cent, was received from or through England, while $326,000,000, or 24 per cent, was transferred to this country from the former gold bloc countries—France, Holland, and Switzerland. With respect to the inward movement of capital from abroad in security transactions, about 37 per cent was reported as being for British account, 40 per cent for the account of former gold bloc countries, and the balance—23 per cent—for other countries. Net foreign buying of American securities was the major element in the aggregate inflow of capital through security transactions, alone amounting to $633,000,000. Net foreign purchases of foreign securities from Americans totaled $273,000,000, while changes in brokerage balances reflected a further inflow of capital of $23,000,000.

The outstanding feature of the movement of capital between this country and abroad since the end of September 1936 was a marked acceleration in foreign buying of American securities. This buying was greatly expanded during October and reached its largest volume in the early part of November. Recent official statements calling attention to the problems raised by heavy foreign buying of American securities were followed, however, by some slackening of the buying movement.

(In millions of dollars)

	1935 Full year	1936 Through Sept. 30	Total
Inflow in Short Term Banking Funds:			
England	337.4	100.5	437.9
European Gold Bloc	307.0	18.9	325.9
Other Countries	319.1	270.1	589.3
Total	963.5	389.5	1,353.1
Inflow in Security Transactions:(*)			
England	217.5	124.7	342.3
European Gold Bloc	148.2	220.5	368.7
Other Countries	82.2	135.5	217.6
Total	447.9	480.7	928.6
Total Net Capital Inflow:			
England	554.9	225.3	780.2
European Gold Bloc	455.1	239.4	694.5
Other Countries	401.4	405.5	807.0
Grand Total	1,411.4	870.2	2,281.7

(*) Includes net foreign purchases of securities from Americans, and changes in brokerage balances.

Foreign Exchanges

In general, foreign exchange rate movements were confined to rather narrow limits during November. The pound sterling and the former European gold bloc exchanges receded somewhat in the early part of the month, but recovered thereafter and in the latter part of November were at about the same levels as at the close of the previous month. The pound sterling, which was quoted at $4.88 15/16 at the end of October, declined slightly to as low as $4.87½ on November 6 and 7, but advanced somewhat during the remainder of the month closing at $4.89⅞ on November 28. French exchange showed a similar tendency, dropping to $0.0461⅞ for a brief period during the course of trading on November 6, and rising to $0.0465 13/16 at the end of the month. The recovery in the spot rate was accompanied by a marked narrowing of the discount on forward francs, and on November 27 this discount was at the equivalent of only 5½ per cent a year for three month contracts as compared with 15½ per cent on November 7. Swiss francs continued to show a high degree of stability during November, being quoted in this market between 22.98 cents and 23.02 cents. The Netherlands guilder, for which no range of devaluation has been established, fluctuated during the month over a somewhat wider range than the other major Continental European currencies, but the net change in quotations for November as a whole was slight, the dollar-guilder rate being quoted at 54.30 cents on November 28 as compared with 54.15 cents on October 31.

On November 23, the Secretary of the Treasury announced that, as a further step in the direction of international monetary equilibrium, arrangements have been made by the United States Treasury for gold transactions on a reciprocal basis with Belgium, the Netherlands, and Switzerland, which countries have notified the United States of their adherence to the principles of the tripartite declaration of September 25, 1936. In this connection, the Secretary of the Treasury stated that (hereafter, and until, on twenty-four hours' notice, this statement of intention may be revoked or altered) the United States, in addition to sales of gold to the exchange equalization or stabilization funds of foreign countries, will also sell gold to the treasuries or fiscal agencies of those countries whose treasuries or fiscal agencies offer to sell gold to the United States, provided such offerings of gold are at such rates and upon such terms as the Secretary may deem most advantageous to the public interest. Simultaneously with the above announcement, the Secretary's statement of January 31, 1934, regarding the sale of gold for private export to the central banks of gold standard countries, was withdrawn. Thus, under the terms of the statements now in force, sales of gold will be made by the Treasury to exchange stabilization funds, treasuries, or fiscal agencies of designated foreign countries. The countries so far designated by the Secretary of the Treasury are England, France, Belgium, the Netherlands, and Switzerland.

Gold Movement

During November imports of gold into the United States continued in moderately large though diminishing volume. Imports affecting the monetary gold stock totaled $69,100,000, of which $44,000,000 from England, $9,900,000 from Canada, $6,000,000 from India, $3,700,000 from Switzerland, $2,500,000 from Belgium, $400,000 from Straits Settlements, and $300,000 from Russia were received at New York, and on the West Coast $1,900,000 came from Australia and $400,000 from Hongkong.

These imports, together with the release of $3,700,000 of gold from earmark for foreign account at the Federal Reserve Bank of New York and a substantial amount of gold from other sources, including domestic newly mined and scrap gold, resulted in an increase of close to $140,000,000 in the monetary gold stock of this country during the month.

Central Bank Rate Changes

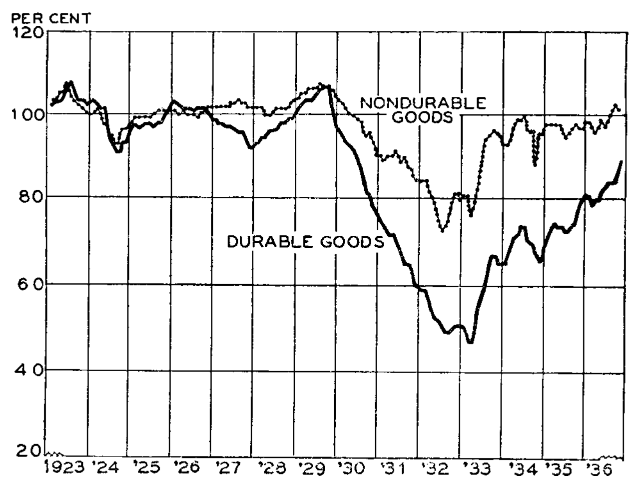
Effective November 26 the Swiss National Bank lowered its discount rate from 2 to 1½ per cent, and on November 1 the Bank of Latvia reduced its rate from 5½ to 5 per cent. Effective the 19th, the National Bank of Denmark raised its rate from 3½ to 4 per cent.

Employment and Payrolls

Employment in representative New York State factories increased approximately 1 per cent more than is usual between the middle of September and the middle of October, raising this bank's adjusted index to the highest level since August 1930. Factory payrolls which are usually slightly lower in October than in September registered a sharp contra-seasonal gain, the adjusted index advancing more than 4 per cent to the highest point since May 1931. Employment increased in all of the major industrial classifications with the exception of the food group, which was affected by the closing of the canning season.

For the United States as a whole further gains in private employment in the manufacturing and nonmanufacturing industries surveyed by the Department of Labor occurred in the period from mid-September to mid-October, continuing the succession of monthly advances which started last February. Approximately 220,000 more workers obtained employment in October and aggregate weekly payrolls were more than $16,000,000 greater than in the preceding month. Factory employment showed an unseasonal gain between September and October, and payrolls advanced by considerably more than the usual seasonal proportions. The gains were widespread, nearly 80 per cent of the manufacturing industries covered by the Department of Labor reporting more workers in October than in September, and approximately 88 per cent showing payroll increases.

The number of workers in the durable goods group of industries advanced by 4 per cent during October, while employment in the combined nondurable goods industries, affected by greater than seasonal declines in a number of the food industries, decreased approximately 1 per cent. From the latter part of 1929 to the early months of 1933, employment in the durable goods group declined much further than employment in the nondurable goods industries, as the accompanying diagram indicates. During the balance of 1933 and throughout 1934, employment in both groups recovered materially, but in 1935 and 1936 the number of workers in the nondurable goods industries remained about unchanged at a level slightly below the average for 1923-25, while steadily increasing employment at factories producing durable goods has narrowed the disparity between the



Indexes of Employment in Industries Producing Durable and Nondurable Goods, Adjusted for Seasonal Variation (1923-25 average=100 per cent)

two groups which developed during the early years of the depression. Although employment in the durable goods group as a whole is still below pre-depression levels, a number of the individual industries within the group are now employing more workers than in the period prior to the depression. Employment in the blast furnace, steel works, and rolling mills industry in October exceeded that of any month since April 1924, and the number of workers in the glass industry was higher than at any time since November 1926.

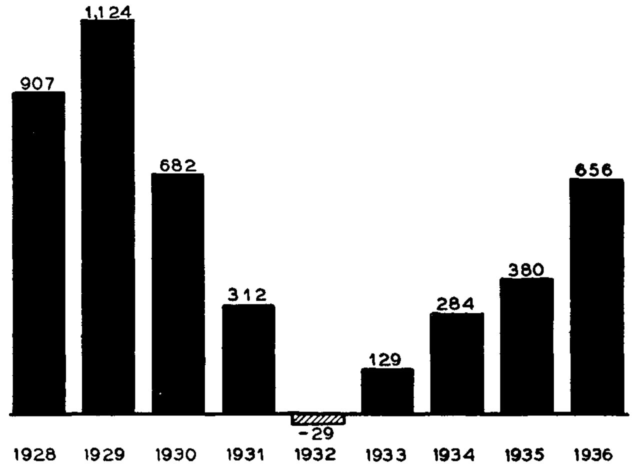
Business Profits

The continued expansion in the volume of business in the July to September quarter of this year, which in the case of basic industrial production amounted to 23 per cent over a year ago, was again accompanied by large percentage increases in business profits. For a list of 229 industrial and mercantile concerns, which issue interim earnings reports, third quarter profits were 66 per cent larger than in the corresponding period of last year and 19 per cent above the third quarter profits of 1930, but remained 41 per cent less than in 1929. The largest relative increase was shown by the steel companies, which were just beginning to show net profits a year ago, and other large percentage increases were reported by the shipping, clothing and textile, building supply, and machinery and tool industries. More than the average increase in profits over last year occurred also in the automobile parts and accessories concerns. More than one-half of the 20 groups of concerns shown in the table had larger profits than in 1930, but only the chemical and drug, metals and mining (exclusive of coal and coke), and shipping company groups did better from a profits viewpoint than in the third quarter of 1929.

Net profits of the same 229 companies for the first nine months of 1936 were 65 per cent larger than in 1935, but were 4 per cent less than in 1930, and 39 per cent below 1929. For this period, considerable increases over 1930 profits were shown by the automobile, clothing and textile, and metals and mining groups, and smaller increases were shown by seven other groups, but no group had profits exceeding those of the first nine months of 1929. The proportion of individual companies reporting net losses was reduced to 10 per cent of the total in 1936 from 23 per cent in 1935. The course of industrial profits since 1928 is indicated in the accompanying diagram, which is based on data of 168 companies whose figures have been compiled for the first nine months of each year of the nine year period.

The Class I railroads during the third quarter of this year, earned a moderate amount of net income, after payment of fixed charges, as against deficits in the previous two years, and this gain, following marked improvement in earnings in the first half of the year resulted in some net income for the first nine months instead of the deficits shown for several previous years. Net operating income before payment of fixed charges during the first nine months of 1936 remained 33 per cent less than in 1930 and 54 per cent less than in 1929.

Net operating income of telephone companies for the first nine months was 17 per cent larger than a year ago.



Net Profit or Deficit of 168 Industrial and Mercantile Companies During First Nine Months of 1928-1936 (In millions of dollars)

Net income of other public utilities was 15 per cent larger than last year, but was 22 per cent smaller than in 1930 and 25 per cent less than in 1929.

(Net profits in millions of dollars)

Corporation group	Third Quarter 1929	1930	1935	1936	First nine months 1929	1930	1935	1936
Automobiles	89.6	25.3	33.4	48.9	307.7	145.0	132.4	227.0
Automobile parts and accessories (excl. tires)	22.2	5.7	6.4	11.4	79.0	36.1	36.2	46.0
Building supplies	8.2	4.7	1.9	4.2	20.4	12.7	3.2	8.7
Chemicals and drugs	43.1	30.7	32.2	43.3	124.6	100.2	81.5	117.2
Clothing and textiles	2.0	0.5	0.5	1.3	3.2	1.5	1.1	2.5
Coal and coke	1.3	—0.2	—0.3	0.4	4.1	1.8	0.8	2.0
Electrical equipment	35.1	16.7	9.0	14.8	88.8	54.5	29.5	42.9
Food and food products	49.5	40.3	27.9	37.6	131.3	122.0	75.8	97.4
Household supplies	5.3	1.9	3.0	4.2	13.9	6.4	4.6	6.8
Machinery and tools	8.1	2.7	3.1	6.8	24.0	15.5	8.7	18.4
Metals and mining (excl. coal and coke)	16.0	5.9	12.0	16.1	45.8	24.9	31.1	43.8
Office equipment	6.9	3.5	3.2	3.7	21.8	14.4	10.6	12.5
Oil	51.2	26.1	18.6	29.7	113.6	67.5	39.9	67.5
Paper and paper products	1.7	1.2	0.8	0.9	4.2	4.1	2.0	2.4
Printing and publishing	6.6	5.2	1.5	1.8	21.8	20.9	6.1	7.1
Railroad equipment	12.3	11.6	0	5.8	30.6	32.8	0.9	11.8
Shipping	1.2	0.1	0.3	1.5	3.7	1.6	—1.5	2.2
Steel	84.2	33.4	2.6	29.1	241.9	142.1	7.5	62.3
Tobacco	3.4	2.1	0.9	1.1	8.7	5.4	2.1	2.3
Miscellaneous	18.3	14.8	8.5	12.8	53.3	39.5	21.7	32.3
Total, 229 companies	466.2	232.2	165.5	275.4	1,342.4	848.9	494.2	813.1
144 Class I Railroads								
Net operating income	393.3	278.7	126.3	196.6	945.3	648.2	321.2	434.9
Net income	*	*	—4.6	66.5	*	*	-66.2	42.8
82 Telephone companies								
Net operating income	*	*	48.6	56.4	*	*	144.7	169.8
54 Other public utilities								
Net income	57.1	52.4	37.8	43.8	187.7	180.9	122.7	140.6

— Deficit * Not available.

Production

Industrial production continued at a relatively high level during November. Less than the usual seasonal recession occurred in steel mill operations, which apparently averaged around 74 per cent of capacity as compared with 76½ per cent in October. Operations were supported by railroad orders, rising requirements of the automobile industry, and toward the end of the month by purchases made before price advances became effective. Judging from the weekly reports, production of automobiles was advanced to above 100,000 units per week during the course of the month, and in the latter part of November ran ahead of the corresponding period in 1935. Orders for cotton textiles continued in heavy volume, and despite a high rate of cotton mill activity backlogs of unfilled orders were reported to have been built up further. Electric power output reached a new high level during November, 12 per cent above a year ago, and bituminous coal mining also increased.

The seasonally adjusted index of industrial production of the Board of Governors of the Federal Reserve System remained unchanged in October at 109 per cent of the 1923-25 average, a level nearly 15 per cent above the October 1935 index of 95. Steel ingot output increased 5 per cent to a level exceeded in only two previous Octobers, in 1928 and 1929. Expanding tendencies were also evident in production of pig iron, lead, and zinc, electric power output, machine tool orders, and activity at meat packing plants. Bituminous coal production increased in about the usual proportions, but automobile assemblies rose less than last year, following a decline in September that was smaller than a year ago. Cotton textile mills, which were previously operating at high levels, showed less than the usual increase in operations during October, but the total amount of cotton consumed by mills in that month was exceeded in only five other months on record. Anthracite coal production rose less than seasonally in October, and rayon deliveries declined further.

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

	1935	1936		
	Oct.	Aug.	Sept.	Oct.
Metals				
Pig iron	62	81	86	94
Steel	72	101	100	102
Lead	56	49	47	57
Zinc	66	81	79	82
Automobiles				
Passenger cars	94	98	117	79*p*
Motor trucks	101	106	119	57*p*
Fuels				
Bituminous coal	76	83	87	86*p*
Anthracite coal	57	57	70	58*p*
Petroleum, crude	71	70	69*p*	71*p*
Petroleum products	70	72	72	
Electric power	85	95	94*p*	95*p*
Textiles and Leather Products				
Cotton consumption	83	106	105	102
Wool consumption	123	120	102	95*p*
Silk mill activity	70	67	64	65*p*
Rayon deliveries*	104	134	118	97
Shoes	100	113	108*p*	112*p*
Foods and Tobacco Products				
Meat packing	80	96	94	101
Wheat flour	91	102	77	80
Refined sugar deliveries	79	57	71	
Tobacco products	91	89	94	93
Miscellaneous				
Cement	43	61	65	70
Tires	67	95	104	
Newsprint paper *r*	80*r*	81*r*	80*p*	82*p*
Machine tools	99	120	119	127

p Preliminary *r* Revised * For quarter ended

Indexes of Business Activity

During the first half of November, the distribution of goods compared favorably with the October rate according to the limited amount of data available. Reports to the Department of Commerce from 37 cities throughout the country indicate expansion in wholesale and retail trade, as demand for winter apparel and holiday goods was stimulated by favorable weather conditions. In the New York Metropolitan area department store sales appear to have advanced more than seasonally to the highest level after seasonal adjustment in almost five years. Considerably less than the usual seasonal curtailment occurred in railroad shipments of bulk commodities and of merchandise and miscellaneous freight, reflecting in part shipments of goods by rail instead of by water owing to the shipping strike, and increased loadings of supplies and new cars for the automobile industry. Prior to 1935, the first year in which new automobile models were generally announced in the autumn, the movement of goods connected with the automobile industry was relatively small in November.

October indexes of business activity are shown below.

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

	1935	1936		
	Oct.	Aug.	Sept.	Oct.
Primary Distribution				
Car loadings, merchandise and misc.	67	72	73	74
Car loadings, other	68	77	78	80
Exports	51	51	53	
Imports	72	73	76	
Distribution to Consumer				
Department store sales, U. S.	78	88	88	87*p*
Department store sales, 2nd Dist.	70	72	74	75
Chain grocery sales	70	72	68	68
Other chain store sales	85	96	96	96
Mail order house sales	86	92	97	101
Advertising	60	65	65	69
New passenger car registrations	82	90	102	91*p*
Gasoline consumption	92	88	90	
General Business Activity				
Bank debits, outside New York City	63	65	66	67*p*
Bank debits, New York City	45	39	41	41
Velocity of demand deposits, outside New York City	65	70	67	68
Velocity of demand deposits, New York City	42	40	42	40
New life insurance sales	60	52	55	54
Factory employment, United States	88*r*	95*r*	95*r*	96*p*
Building contracts	42	57	46	44
New corporations formed in N. Y. State	58	56	60	58
General price level*	148	156	156	156*p*
Composite index of wages*	189	194	191	193*p*
Cost of living*	141	143	144	143*p*

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

Building

In the New York and Northern New Jersey area contracts for building and engineering work during October were slightly higher than in September. There were substantial gains in residential and nonresidential work other than the heavy engineering types, but these gains were largely offset by further contraction in the volume of new public works projects. Total contracts in October were 35 per cent above the corresponding month of 1935, and for the first ten months of 1936 the total was 64 per cent higher than in the same period a year ago.

For the 37 States covered by the F. W. Dodge Corporation report, contracts in October were somewhat below those awarded in the previous month, continuing the September decline. The total value of contracts, however, was approximately 13 per cent higher than in October 1935, and for the first ten months the total was 63 per cent above the corresponding period in 1935.

Data for the first half of November indicate increases in all of the major classifications of building. Average daily contract awards for all classes of construction rose approximately 8 per cent above the rate maintained during October.

Commodity Prices

Following the downward movement which occurred in the latter part of October, the general average of wholesale prices of principal commodities advanced during November, and the index of 15 raw products computed by Moody's Investors Service rose to a point about 6 per cent above the October low. Price movements in nonferrous metals were an important factor in the increase. Following a substantial increase in the price of copper for export, the spot quotation for domestic copper on November 6 rose ½ cent to 10½ cents a pound. The price of lead also increased 40 points to 5.22½ cents a pound, and a 20 point advance raised zinc to 5.05 cents a pound. A rather sizable advance also occurred in the price of tin, which rose as high as 53.62½ cents a pound, and closed November at 52.60 cents, compared with 46 cents at the end of the previous month. The November advance in nonferrous metals raised prices in most cases to the highest levels in five or six years.

Spot silver at New York rose 2¾ cents on November 9 to 47½ cents a fine ounce, the first change since last May, but an irregular decline followed, so that the net gain for the month amounted to only ⅜ cent.

Among the other commodities showing gains during the month, raw sugar rose 30 points to 3.65 cents a pound, crude rubber reached 18 11/16 cents a pound, 1 9/16 cents above the end of October and the highest price in about seven years, and spot silk increased 20 cents further to $2.06½ a pound. Prices of wool and hides also moved higher. On the other hand, a decline of 5⅛ cents to $1.40¾ a bushel occurred in cash wheat at Minneapolis, reflecting in part improved prospects for Southern Hemisphere crops. An upward movement was shown in spot cotton during the first week of November, but following the release of the November 1 Government cotton crop report, which estimated 1936 production at 12,400,000 bales, an increase over the October 1 estimate of 791,000 bales, there was a moderate reaction; by the close of the month, however, the spot price recovered to a level moderately higher than a month earlier.

Department Store Trade

During the first half of November, total sales of the reporting department stores in the Metropolitan area of New York showed more than the usual seasonal expansion over October, and were 13.9 per cent higher than in the corresponding period a year ago.

In October total sales of the reporting department stores in this district were 13.7 per cent higher than last year, and even after allowing for the effect of one more Saturday this year, the increase was the largest in three months. Sales of the Buffalo and Hudson River Valley District department stores increased by the largest percentages since March 1934, and daily average sales of the Southern and Central New York State stores showed the most favorable comparisons with a year previous since last May. The New York City and Northern New Jersey stores also recorded substantial gains in sales, the largest in three months, and department stores in the remaining localities reported more favorable comparisons with a year ago in the daily rate of sales than in September. Sales of the leading apparel stores in this district were 18.6 per cent higher than last year, and on an average daily basis this increase was the largest since last May.

Locality	Percentage change October 1936 compared with October 1935		Per cent of accounts outstanding September 30 collected in October	
	Net sales	Stock on hand end of month	1935	1936
New York	+12.0	+ 2.4	52.1	51.9
Buffalo	+27.7	+15.3	51.8	55.1
Rochester	+15.0	— 0.1	48.2	52.6
Syracuse	+ 6.2	+ 0.1	51.0	55.2
Northern New Jersey	+20.3	+ 8.4	43.6	44.7
Bridgeport	+16.0	+10.8	41.2	46.6
Elsewhere	+12.5	— 6.6	37.0	38.6
Northern New York State	+ 9.9	......	....	....
Southern New York State	+ 7.0	......	....	....
Central New York State	+13.6	......	....	....
Hudson River Valley District	+21.1	......	....	....
Capital District	+12.4	......	....	....
Westchester and Stamford	+ 3.3	......	....	....
Niagara Falls	+21.8	......	....	....
All department stores	+13.7	+ 3.4	48.8	49.9
Apparel stores	+18.6	+ 3.8	48.9	48.9

Wholesale Trade

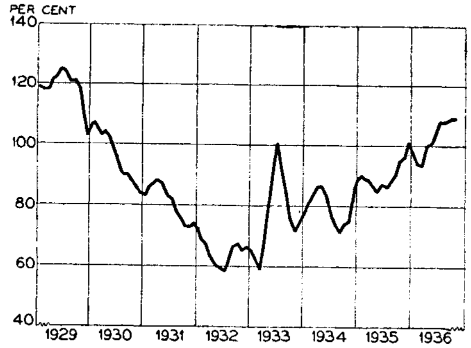
Total October sales of the reporting wholesale firms in this district averaged 5.7 per cent higher than last year, the smallest increase in five months. Stationery firms recorded the first decrease in sales from a year ago since August 1935, cotton goods concerns registered the smallest advance in sales since January 1936, and the hardware firms showed the smallest gain in sales in eight months. The shoe concerns reported less sales than in October 1935, and the grocery, paper, and diamond firms recorded the smallest increases in sales in five months. On the other hand, yardage sales of silk goods, reported by the National Federation of Textiles, and sales of men's clothing were substantially higher than a year ago, and jewelry sales showed the largest gain since May 1934.

Commodity	Percentage change October 1936 compared with October 1935		Per cent of accounts outstanding September 30 collected in October	
	Net sales	Stock on hand end of month	1935	1936
Groceries	+ 3.1	+11.6	96.8	94.1
Men's clothing	+ 8.1	......	44.1	43.5
Cotton goods	+ 3.4	......	....	....
Rayon and silk goods	+13.8*	......	61.3	59.2
Shoes	—11.4	......	46.4	43.5
Hardware	+10.6	+12.6	48.3	48.0
Stationery	— 3.2	......	55.0	51.9
Paper	+ 0.9	......	46.8	66.8
Diamonds	+21.3	+13.8	21.4	18.7
Jewelry	+62.4	+142.7		
Weighted average	+ 5.7	......	62.4	61.2

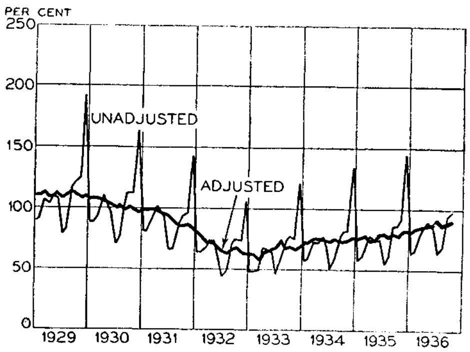
* Quantity figures reported by the National Federation of Textiles, Incorporated, not included in weighted average for total wholesale trade.

FEDERAL RESERVE BANK OF NEW YORK

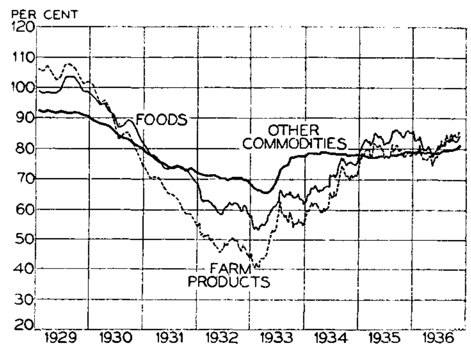
MONTHLY REVIEW, DECEMBER 1, 1936



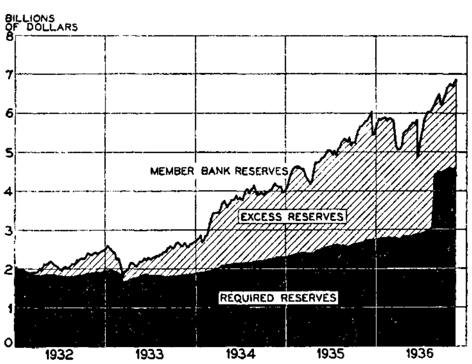
Index Number of Production of Manufactures and Minerals Combined, Adjusted for Seasonal Variation (1923-25 average=100 per cent)



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



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



Member Bank Reserve Balances (Latest figures are for November 18)

Business Conditions in the United States

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

VOLUME of industrial production increased seasonally in October and there was a substantial rise in employment and payrolls. Prices of a number of industrial raw materials and finished products have advanced.

Production and Employment

In October the Board's seasonally adjusted index of industrial production was at 109 per cent of the 1923-1925 average, about the level of the three preceding months. Steel production was in larger volume than in any other month since 1929, and the rate of activity was sustained in the first three weeks of November. Output of automobiles rose sharply from September to October. The increase in this period was less than a year ago, reflecting the fact that this year the date of the shift to production of new models was less uniform among the leading producers, but in the first three weeks of November production increased further and was larger than last year. Activity at textile mills, which usually increases in October, declined slightly from the high level of September. In the meat packing industry output showed a further increase. Coal production increased seasonally, and production of crude petroleum continued at recent high levels.

Factory employment increased by more than the usual seasonal amount between the middle of September and the middle of October. Increases in employment were general among the durable goods industries, with the largest expansion reported at factories producing automobiles and machinery, while changes in employment in the nondurable goods industries were largely of a seasonal character. Factory payrolls rose by considerably more than the usual seasonal amount.

Value of construction contracts awarded, as reported by the F. W. Dodge Corporation, was slightly smaller in October than in September, with a decline in publicly owned projects partly offset in the total by an increase in awards for private nonresidential construction.

Distribution

Sales by department stores and by mail order houses serving rural areas increased from September to October by a larger amount than is usual at this season. Variety store sales showed a less than seasonal rise. Freight car loadings increased further in October, reflecting chiefly a larger volume of shipments of miscellaneous freight and of coal.

Commodity Prices

The general level of wholesale commodity prices advanced somewhat during the first three weeks of November, following two and a half months of little change. Since the middle of October prices of a number of industrial raw materials, particularly nonferrous metals, hides, rubber, silk, and wool, have shown a considerable rise and there have also been substantial increases in the prices of some finished products, including automobile tires, glass, woolen goods, and cotton goods.

Bank Credit

Member bank reserves increased in the four weeks ended November 18, chiefly as the result of transfers of gold to the United States. On that date member bank reserves were $2,270,000,000 larger than legal requirements, the highest level since the increase in reserve requirements which became effective in the middle of August.

Adjusted demand deposits at weekly reporting member banks in leading cities have continued to increase, and on November 18 amounted to about $15,400,000,000. Since the end of last May these deposits have increased by over $800,000,000, reflecting a rise in deposits outside New York City. Time deposits at reporting banks have remained at about the $5,000,000,000 level.

Holdings of United States Government obligations at reporting banks have recently declined somewhat further. Since the end of June the decline has amounted to about $300,000,000 and has been at New York City, with little change elsewhere. Holdings of other securities have declined in recent weeks, reflecting chiefly a reduction in the amount held by New York City banks. Loans to customers have shown some further increase.