MONTHLY REVIEW
of Credit and Business Conditions
Second Federal Reserve District

Federal Reserve Bank, New York *January 1, 1937*

Money Market in December

On December 21, the Secretary of the Treasury issued the following statement:

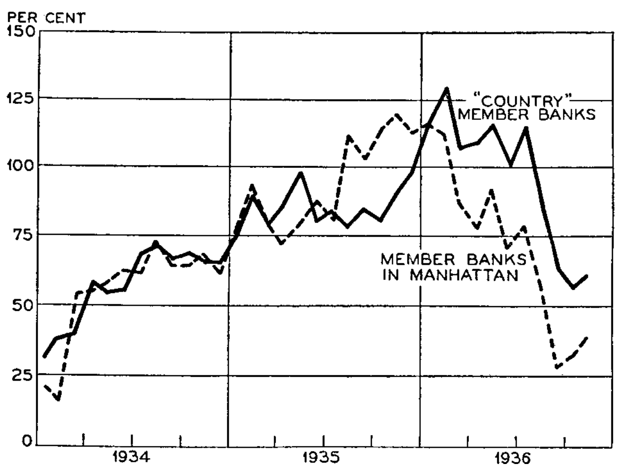
> The Secretary of the Treasury, after conferring with the Board of Governors of the Federal Reserve System, announces that he proposes, whenever it is deemed advisable and in the public interest to do so, to take appropriate action with respect to net additional acquisitions or releases of gold by the Treasury Department.
>
> This will be accomplished by the sale of additional public debt obligations, the proceeds of which will be used for the purchase of gold, and by the purchase or redemption of outstanding obligations in the case of movements in the reverse direction.

Since the end of January 1934, when the gold value of the dollar was reduced, the monetary gold stock of this country had increased by more than $4,000,000,000, largely as a result of gold imports at New York. This gold import movement reflected not so much a balance of payments due this country on exchanges of goods and services with foreign countries as a heavy inflow of capital, including the repatriation of American capital, repayment of foreign indebtedness to this country, the building up of foreign working balances in this country, and, especially since the middle of last year, a heavy inflow of foreign capital for investment in American securities.

The expansion in bank reserves resulting from this increase in the monetary gold stock of the United States was partly offset by a substantial rise in currency circulation and by the increase in reserve requirements of member banks, which accompanied rapidly expanding bank deposits, but in a number of weeks from November 1935 to August 1936 excess reserves of member banks were above $3,000,000,000. In view of this great increase in bank reserves to a volume far in excess of any probable needs within the near future, the Board of Governors of the Federal Reserve System increased reserve requirements of member banks by 50 per cent effective August 16, 1936. This action had the effect of reducing then existing member bank excess reserves by nearly $1,500,000,000 to below $1,800,000,000.

A renewed expansion in excess reserves of member banks followed, however, due in considerable part to a further inflow of gold, which was accelerated in September and October immediately preceding and following the devaluation of the currencies of the European gold bloc countries and of certain other countries. For some months previous there had been frequent discussion of the possibility that devaluation of the gold bloc currencies might be followed by repatriation of foreign capital which had been sent to the United States, and which would result in a heavy outflow of gold from this country and a corresponding reduction in bank reserves. Instead of such an outflow, however, a continued inflow of foreign capital followed the devaluation of gold bloc currencies, apparently reflecting, in large part, continued uncertainty concerning the situation in Europe and the attraction of the American security markets, where a substantial rise in prices was promoted by recovery in business volume and in business profits. By the latter part of November excess reserves for all member banks had risen to approximately $2,250,000,000, and gold was still coming to this country from abroad. This continued inflow of gold led to discussion of possible means of retarding the inflow of foreign capital to this country and of preventing further gold inflows from causing additional increases in bank reserves.

As a large part of the gold inflow during the past three years has been through the Port of New York, the immediate effect was to increase the reserves of the New York City banks. The additional reserves, however, were distributed quite rapidly throughout the country, largely through Government operations, whereby a considerable part of the funds needed to meet Government disbursements were raised through sales of Treasury securities in



Excess Reserves Held by Member Banks located in Borough of Manhattan of New York City and by "Country" Member Banks in the Second Federal Reserve District, Expressed as Percentages of Required Reserves (Latest figures are for November)

the New York market and the funds then distributed widely throughout the country. Between December 31, 1933 and December 16, 1936 the net gold inflow at New York amounted to more than $3,500,000,000, but in the same period Government withdrawals of funds from this district were close to $4,000,000,000. The result was a great increase in the amount of reserves held by the banks in other parts of the country.

Large amounts of such funds were deposited in the Federal Reserve Banks in other districts, and substantial additional amounts were sent back to New York and credited to the balances carried by out of town correspondent banks with the large New York City banks. There was also a substantial flow of commercial funds from other parts of the country to deposit accounts in New York. The return flow of funds to New York through banking and commercial channels replenished the reserves of the New York City banks, and these banks, as well as other banks throughout the country, have held large amounts of excess reserves during the past three years.

In relation to reserve requirements, however, the amounts of excess reserves held by the large New York City banks usually have been no greater than for banks in other parts of the country, if as large, and claims on the New York banks by out of town banks in the form of deposit balances considerably exceed the excess reserves now held by the former. In this district the percentage of excess reserves to reserve requirements of "country" banks (all banks outside of New York City and Buffalo) averaged much the same as for the New York City (Manhattan) banks during most of 1934 and the first half of 1935, was somewhat less in the latter half of 1935, and has been somewhat greater during 1936, as the preceding diagram shows. In November 1936 the average ratio of excess reserves to reserve requirements was about 60 per cent for all "country" banks in the district as compared with 39 per cent for New York City banks.

Effect of the New Treasury Program

The procedure indicated by the announcement of the Secretary of the Treasury quoted above will tend to prevent further accumulation of excess reserves in member banks as a whole. In the past, when gold imports were received at New York, the gold was deposited in the Assay Office, and the importer received in payment a Treasury check, which when presented at the Reserve Bank by or through a bank resulted in a reduction in the Government account and an increase in the reserve account of a member bank. The Treasury then made a deposit in the gold certificate account of the Federal Reserve Bank against the imported gold, and the Reserve Bank credited the amount to the Government deposit account, thus restoring the Government's balance and in effect providing the funds with which to pay for the gold. Under the new procedure, the Treasury will hold the imported gold inactive, will pay for it out of its balance with the Federal Reserve Banks, and will then restore this balance through the sale of securities in the market. Thus, instead of continuing to cause further increases in member bank reserves, gold imports will leave the total amount of member bank reserves unchanged, and may even reduce excess reserves somewhat by reason of the reserve required against deposits created by gold imports.

The distribution of excess reserves between the New York City banks and banks in other parts of the country will depend largely upon the relationship between Government receipts and expenditures in this district and in other districts, and upon transfers of commercial and bank funds between districts. Presumably as Government expenditures and receipts approach a balance, Government withdrawals of funds from New York will tend to diminish, and on the basis of experience during the years from 1920 to 1930, when Government receipts reach the point of exceeding Government expenditures, so that public debt can be retired, the movement of funds through Government transfers between New York and other parts of the country may be reversed. On the other hand, increasing business demands for capital in other localities may result in a reversal of the movement of funds through commercial and banking transfers, which has been toward New York during the past three years.

Temporary Reduction in Excess Reserves

During the past month seasonal demands for currency for the holiday trade, together with the effects of new Treasury financing in the December tax period, had the effect of causing a substantial, though temporary, reduction in excess reserves of member banks. Between November 25 and December 23 the amount of currency outstanding increased by about $250,000,000 and caused a corresponding reduction in member bank reserves. In addition, between December 9 and December 23, cash payments for the new securities sold by the Treasury, together with income tax and other collections, exceeded Treasury payments for the redemption of maturing securities, interest payments, and other Government expenditures by approximately $130,000,000. This was a smaller amount than in several preceding Treasury periods, due partly to the fact that the amount of new money raised by the Treasury was smaller, and partly to a reduction in the proportion of new Treasury securities paid for with cash rather than with book credit (55 per cent in December as compared with 77 per cent in September and June). Such transfers of funds from member bank reserves to Government deposits in the Reserve Banks ordinarily are reversed in weeks following tax periods, as Government expenditures tend again to exceed ordinary receipts and thus to cause the disbursement of funds from Government deposits, which then go back into the reserve balances of the banks. Currency also flows back to the banks and increases bank reserves substantially in the month following Christmas.

In New York City excess reserves rose temporarily at the middle of the month, due to an excess of redemptions of maturing Treasury bills over cash payments by the banks for purchases of new Government securities, but during the next ten days the reserves of the New York City banks were reduced rapidly through income tax collections and through transfers of bank and commercial funds to other districts. Rates on the weekly issues of Treasury bills rose somewhat during December, but short term money rates otherwise were generally unchanged.

	Dec. 31, 1935	Nov. 30, 1936	Dec. 29, 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)	1.75	1.71	1.71
Treasury securities:			
Maturing April (yield)	No yield	No yield	No yield
Maturing February 1938 (yield)	....	0.03	0.29
Average yield on Treasury notes (1-5 years)	0.73	0.61	†0.84
Average yield on Treasury bonds (more than 5 years to earliest call date)	2.50	2.11	‡2.15
Average rate on latest Treasury bill sales 273-274 day issue	0.08	0.08	0.29
Federal Reserve Bank of New York rediscount rate	1½	1½	1½
Federal Reserve Bank of New York buying rate for 90 day indorsed bills	½	½	½

* Nominal
† Change of +0.03 from previous yields due to inclusion of new 1¼ per cent Treasury notes maturing December 15, 1941.
‡ Change of +0.02 in the average yield on United States Treasury bonds due to the inclusion of the new 2½ per cent Treasury bonds of 1949-53.

Member Bank Credit

The outstanding development in member bank credit during December was a further increase in loans other than security loans. The increase in the New York City banks during the four weeks ended December 23 amounted to $138,000,000, and the increase for all other weekly reporting member banks throughout the country in the four weeks ended December 23 also amounted to $138,000,000. This increase, which was unusual for the time of year, appears to have reflected largely a contra-seasonal increase in commercial loans, although there were other minor elements such as sales of "Federal funds" to borrowers other than banks. There were also moderate increases in loans on securities, including loans to Government security dealers, and a net increase of $137,000,000 in Government security holdings of all reporting banks in the first half of December, reflecting purchases of the new Treasury issues on December 15. The increase in Government security holdings was entirely in banks outside New York, as maturities of Treasury bills from the holdings of New York City banks exceeded their purchases of the new Treasury securities. Altogether, total loans and investments of all reporting member banks rose $540,000,000 during the four weeks ended December 23 to the highest level since April 1931.

Adjusted demand deposits of the reporting banks showed a net increase of $161,000,000 during the three weeks ended December 16, and reached a higher level than ever before, notwithstanding heavy withdrawals of currency from the banks for the holiday trade, but declined somewhat in the following week.

Government Securities

Prices of United States Treasury bonds, which had shown a considerable rise in November, advanced slightly further in the first week of December, and on December 8 the average price of bonds not due or callable within 5 years was nearly 2 points above the level which existed at the beginning of November. On December 7 the Treasury announced the details of its quarterly financing, following an earlier preliminary announcement, in connection with which the Secretary called attention to the possibility of a further increase in member bank reserve requirements. In the week between the date of the announcement and the issue date for the new securities, December 15, the average price of outstanding Treasury bonds declined by ⅛ to ¼ of a point, and in the succeeding week there was a further drop of about ⅓ of a point. The declines in all of the individual Treasury bonds not due or callable within 5 years represented the loss of only a part of the gain between November 2 and December 8, however, as is shown by the prices for the following Treasury bonds which are outstanding in largest volume.

Issue	November 2	December 8	December 22
3¼'s of 1943-45	108 12-32	110 15-32	109 20-32
3¼'s of 1944-46	108 8-32	110 13-32	109 20-32
4's of 1944-54	114 11-32	116 9-32	115 20-32
2¾'s of 1945-47	104 12-32	106 24-32	106 3-32
3's of 1946-48	106 3-32	108 1-32	107 18-32
2¾'s of 1951-54	101 17-32	103 4-32	102 18-32
2⅞'s of 1955-60	102 20-32	104 15-32	103 23-32
2¾'s of 1956-59	101 3-32	102 21-32	102 4-32

In the latter part of the month Treasury bonds became somewhat firmer, the average price recovering between ⅛ and ¼ point. The new issue of 2½ per cent Treasury bonds of 1949-53 which was floated on December 15 was quoted on that day at 100 30/32 and at 101 4/32 on December 29.

In the Treasury note market, prices declined proportionately more than in the Treasury bond market, apparently reflecting in part a decrease in the "rights value" of the nearby maturities on the realization that the opportunities for exchanging these notes in full into new Treasury obligations will become less assured as the Treasury's requirements for borrowed funds decrease. The premiums on the 1937 maturities narrowed considerably, thereby reducing the negative yields prevailing on these issues, and for the longer maturities yields increased somewhat; for example, the note issue due February 1938 which was selling at a yield of 0.02 per cent on December 1 declined to a price which raised the yield to 0.30 per cent on December 24. The average yield on all outstanding notes of 1 to 5 year maturity which had declined from 0.81 to 0.62 per cent between November 2 and December 8 rose to 0.87 per cent on December 24, after adjustment for the effect of adding the December 15 note issue to the average. The rise in yields on Treasury notes was considerably more than the increase in yields on Treasury bonds, which advanced only from 2.10 to 2.15 per cent, after dropping from 2.32 per cent on November 2. In the closing days of the month, Treasury notes also became firmer with a consequent decline in yields.

The December quarterly financing of the Treasury included the allotment of $751,400,000 of 2½ per cent Treasury bonds of 1949-53 on cash subscriptions, and the issuance of $551,200,000 of the bonds and $206,800,000 of 1¼ per cent Treasury notes of 1941 in exchange for Treasury notes maturing December 15, 1936 and February 15, 1937. Although a total of $1,509,400,000 of new securities was issued, the net addition to the public debt was only about $350,000,000, because of the redemption of $400,000,000 of Treasury bills on December 15 and exchanges for outstanding Treasury notes. Of the Treasury notes maturing December 15 and February 15 that were exchanged for new issues 73 per cent were exchanged for the bonds and only 27 per cent for the notes, making this the smallest note issue outstanding. In addition, the Treasury continued during December to issue each week $50,000,000 more Treasury bills than matured. The maturity of these additional bills has been arranged so that $100,000,000 fall due on March 16, $100,000,000 on March 17, and $50,000,000 on March 18—days on which income tax collections will be heavy. There was a slight stiffening of rates on Treasury bills during December, the 104 day issue dated December 2 being sold at an average rate of 0.040 per cent while the 78 day issue dated December 30 yielded 0.109 per cent; likewise yields on the 273 day issues moved up from 0.088 to 0.294 per cent.

Bills and Commercial Paper

A slight increase in trading activity occurred in the bill market during December but not of such extent as to change materially the character of the market that has prevailed for many months. As is usually the case, dealers' portfolios at the year end were somewhat larger than a month earlier. In November a further rise of $19,000,000 to $349,000,000 occurred in the total volume of outstanding bills which, however, remained $38,000,000 smaller than a year ago. The increase over October was due chiefly to a seasonal increase of $10,000,000 in export bills and $5,000,000 in domestic warehouse credits. At the end of November accepting institutions held about $309,000,000 of bills and other investors held $40,000,000.

(Millions of dollars)

Type of acceptance	Nov. 1935	Oct. 1936	Nov. 1936
Import	105	110	112
Export	84	67	77
Domestic shipment	11	10	13
Domestic warehouse credit	100	65	70
Dollar exchange	3	1	1
Based on goods stored in or shipped between foreign countries	84	77	76
Total	387	330	349

During December investment demand by the banks for open market commercial paper continued to exceed the moderate amounts of new drawings that came into dealers' lists for sale. Average grade prime four to six month commercial paper continued to be sold chiefly at $\frac{3}{4}$ per cent, but there were some transactions at $\frac{5}{8}$ per cent when unusually high grade paper entered the market. Commercial paper dealers reported a total of $191,300,000 of paper outstanding at the end of November, as compared with $198,800,000 a month earlier and $178,400,000 a year ago.

Security Markets

Stock prices moved quite irregularly during the first half of December, a receding tendency in the first week being followed by some firming in the second week. By mid-December industrial stocks were slightly higher than at the opening of the month, but railroad shares were slightly lower and utility stocks were little changed. In the third week of December, stocks showed a rather general decline, average prices dropping 4 per cent during this period, and in the subsequent part of the month irregular movements again prevailed with the general tendency slightly higher. A comparison of prices quoted toward the close of the year with the November 1936 highs indicates average declines of 11 per cent in railroad stocks, 5 per cent in public utilities, and 4 per cent in industrial shares. On the whole the stock market was somewhat less active in December than in the previous month.

Most classes and grades of domestic corporate bonds advanced further during the first half of December, and in most cases prices either reached new high levels or reattained previous highs. In the second half of December, however, increasing irregularity developed and some decline occurred in the corporate bond market, coincident with the recession in the Government security market. The available bond averages near the end of the month showed recessions of about $\frac{1}{2}$ point from previous highs.

New Financing

New securities offered during December, totaling about $750,000,000, were in the largest volume since June when the amount was $785,000,000. December flotations were about $400,000,000 larger than in the preceding month and $300,000,000 larger than in December 1935. Although the major part of the new issues were sold for the purpose of providing funds to redeem outstanding securities carrying higher rates of interest, there were a number of issues the proceeds of which are to be used in whole or in part for future new capital expenditures or reimbursement of capital expenditures on plant and equipment already made.

From the viewpoint of size, the American Telephone and Telegraph Company $160,000,000 refunding issue was the largest offering in December. Of this second refunding operation by the American Telephone and Telegraph Company, $140,000,000 of 30 year $3\frac{1}{4}$ per cent debentures were publicly offered at 102 to yield 3.15 per cent. Later in the month the Pacific Telephone and Telegraph Company floated a $25,000,000 refunding issue of 30 year $3\frac{1}{4}$ per cent bonds at a price to yield 3.00 per cent, which represented a new low yield for recent years on a large corporation issue. Other of the larger corporate issues of the month were $35,000,000 Oklahoma Gas and Electric Company 30 year bonds, yielding 3.61 per cent and $9,500,000 of 10 year debentures of the same company yielding 3.95 per cent, $26,800,000 Ohio Edison Company 35 year bonds yielding 3.60 per cent, $23,000,000 Consolidated Gas, Electric Light and Power Company of Baltimore 35 year bonds yielding 3.06 per cent, $27,500,000 Houston Lighting and Power Company 30 year bonds yielding 3.34 per cent, and $20,000,000 Armour and Company of Delaware bonds yielding 4.11 per cent. In the aggregate about $575,000,000 of domestic corporation financing was announced, of which $80,000,000 was stock issues representing in large part $44,000,000 Sears, Roebuck and Company stock to be issued to increase working capital.

In the State, municipal, and farm loan field, issues totaled about $170,000,000 for December. The State of New York allotted to a large group of financial institutions $60,000,000 of 6 month tax anticipation notes, only part of which were subsequently reoffered publicly. There were also sizable security issues by the cities of Detroit and Chicago. The Port of New York Authority sold $10,000,000 of 40 year bonds for construction of part of the midtown Hudson River Tunnel; these securities were publicly offered at a price to yield 2.80 per cent.

Federal Intermediate Credit Bank financing included the sale of $24,400,000 of short term debentures, in partial replacement of maturities of $33,500,000 on December 15.

During the first part of the month, the new issues which reached the market were quickly absorbed and advanced to premiums over issue prices. Later in the month, however, coincident with some easing in bond prices, several of the low rate coupon issues which were priced very close to the market tended to move more slowly.

Foreign Exchanges

The principal European currencies were generally firm against the dollar during December, although quotations moved within a narrow range in a comparatively inactive market. The pound sterling, which had been quoted at $4.90¾ at the close of November, was fractionally higher toward the end of December at about $4.91⅛. The French franc recorded a similar small gain over the same period, rising from $0.0466¾ to 0.0467\frac{1}{16}$. The London-Paris rate also held within a narrow range of 105.17 to 105.13 francs per pound during the month. The repayment, in weekly instalments, of the £40,000,000 credit extended to the French Treasury in February 1936 by a British syndicate had no direct effect on the foreign exchanges.

Continuing the upward tendency shown in the previous month, the Dutch guilder rose from $0.5440 to $0.5476 during the first three weeks of December, at which level it remained firm. The Swiss franc was virtually unchanged during the month at $0.2299. The belga weakened at the end of the month from $0.1692 to approximately $0.1686½.

During December, the forward discount on the guilder continued to narrow, the quotation for three month contracts declining from the equivalent of 1$\frac{13}{16}$ per cent per annum to $\frac{11}{16}$ per cent, as contrasted with a discount of 6¾ per cent on October 2. This movement reflected the combined effect of several related factors, including the covering of short positions in Dutch exchange, a return flow of funds to Amsterdam from both London and New York, the development of easier conditions in the money and capital markets, and the removal of supervision formerly applied by the Netherlands Bank to forward exchange dealings and to the extension of foreign credits by Dutch commercial banks. The forward discount on Swiss francs also virtually disappeared. The premium on the forward belga rose somewhat, reaching ¾ per cent per annum in mid-December and closing the month at about ½ per cent. Three month forward contracts in the French franc reached a discount of approximately 9⅛ per cent at the end of December.

On December 10, the Argentine Government announced a change in its official selling rate for the pound sterling from 17 pesos to 16 pesos, or the equivalent, at $4.91 per pound sterling, of 30.7 cents per peso. The official buying rate remained unchanged at 15 pesos per pound. Meanwhile, the rate for the peso in the free market advanced during December from 28 cents to 30.6 cents.

Gold Movements

A moderately large amount of gold continued to be imported into the United States during December. Imports affecting the monetary gold stock totaled $52,400,000, of which $33,900,000 from England, $9,600,000 from India, $4,100,000 from Canada, and $3,300,000 from Switzerland were received at New York, and $1,100,000 from Australia and $400,000 from Hongkong arrived on the West Coast.

These imports were supplemented by the release of $2,600,000 of gold from earmark for foreign account at the Federal Reserve Bank of New York, and by receipts of gold from other sources, including domestic newly mined and scrap gold, and consequently there was an increase of about $75,000,000 in the monetary gold stock of this country for the month. For the year as a whole the monetary gold stock has risen approximately $1,135,000,000, following an increase of $1,890,000,000 in 1935, and of $1,390,000,000 in 1934, exclusive of the revaluation profit of slightly more than $2,800,000,000.

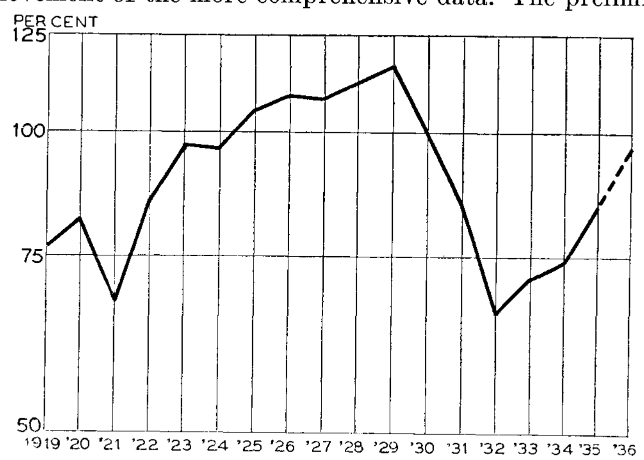
Central Bank Rate Changes

Effective December 3 the discount rate of the Netherlands Bank was lowered from 2½ to 2 per cent, a level reached only twice previously since 1842. On the 7th, the Bank of Norway raised its discount rate from 3½ to 4 per cent. The previous rate had been in force since May 1933.

Production and Trade in 1936

According to a preliminary compilation made by this bank, the total volume of production and trade in this country in 1936 was approximately 15 per cent above the 1935 total. The estimated business volume for 1936 was about 45 per cent greater than in the low year 1932, and was the largest since 1930, coming within 3 per cent of that year's total, but remained 17 per cent below the aggregate for the peak year, 1929.

The rate of recovery in production and trade has been considerably accelerated in the past two years, as the accompanying diagram indicates. This diagram is based on this bank's final estimates of the volume of production and trade for the years between 1919 and 1935, as computed from data on over 200 business series, and on the preliminary estimate for 1936 computed from those principal groups of data which are available promptly and have in the past given fairly close indications of the movement of the more comprehensive data. The prelimi-



Index of General Production and Trade in the United States (Preliminary estimate for 1936 based on principal series—ratio scale used to show proportionate changes; 1923-25 average = 100 per cent)

nary estimate for 1936 was arrived at by using series on the production of manufactures and minerals, agricultural production, railroad car loadings of merchandise and miscellaneous freight, and construction contracts. Actual figures for at least the first 11 months of 1936 were used, together with estimates for the remaining portion of the year.

The largest percentage increase during 1936 was in construction activity, which, although 43 per cent larger than in 1935, was only about one half the volume for the peak year, 1928. Residential building continued to show a somewhat larger relative gain than other classes, but there were also substantial increases in other types of construction. The next largest increase, 17 per cent, was in the output of manufactures, which in 1935 led in the recovery movement, so that 1936 output exceeded that of all years back to 1929 but remained 12 per cent smaller than in that year. Production of minerals and metals increased about 13 per cent between 1935 and 1936, and was also the largest since 1929. The increase in merchandise and miscellaneous freight car loadings in 1936 amounted to 12 per cent, or considerably more than in the previous year. These freight loadings for the year as a whole, however, did not rise above the total for 1931, and were about 32 per cent below the 1929 volume.

The total volume of agricultural production in 1936 was 3 per cent above the low year 1935, but remained some 11 per cent below the peak year 1931. Field and truck crops totaled less than in 1935, due chiefly to curtailed production of grains, apples, potatoes, and tobacco, but there was a substantial increase in the amount of livestock marketed, reflecting an increase in marketings of hogs and cattle, which in 1935 were severely reduced as a result of the 1934 drought. Some of the 1936 increase was due to forced movement of livestock from the drought areas, and some was due to the larger 1936 spring pig crop.

Production

It appears from available data that the rising tendency of industrial production evident in November extended into December. Judging from the weekly estimates, steel mill activity was higher than in November when operations averaged 79 per cent of capacity. Steel production has declined in most years in November and December, and the opposite tendency apparent this year was related to special activity in filling orders placed in anticipation of price advances, to the change in seasonal activity in the automobile industry, and to higher rates of consumption by the railroads and other steel using industries. Although retarded somewhat by labor difficulties, automobile assemblies expanded further, and activity at cotton textile mills, owing to the well sold position of the industry and despite a diminished volume of current sales, was reported to have increased during the first three weeks of the month. In the same period electric power output, partly in reflection of the usual seasonal tendency, rose further, while bituminous coal production was slightly lower.

The seasonally adjusted index of industrial production of the Board of Governors of the Federal Reserve System rose 5 points in November to 114 per cent of the 1923-25 average, 19 per cent above the figure of a year ago, and 4 per cent above that of November 1929. Steel ingot output expanded 3 per cent, in contrast to the tendency in most years, and reached a higher level than in any previous November. A marked gain occurred in automobile assemblies as volume production of new models was attained, and an advance of 3 per cent over the high level of the preceding month was shown in the rate of consumption of cotton by textile mills to the highest rate on record. Increases also occurred in pig iron, lead, zinc, and coal output, newsprint paper production, and activity at meat packing plants. Machine tool orders rose sharply and approximated the peak volume of last July, and the generation of electric power showed the usual seasonal advance. Rayon deliveries, however, remained at a level definitely lower than that prevailing during the summer.

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

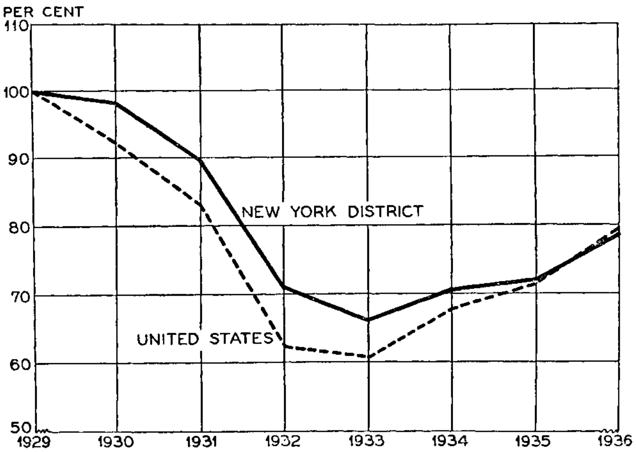
	1935	1936		
	Nov.	Sept.	Oct.	Nov
Metals				
Pig iron	69	86	94	99
Steel	81	100	102	115
Lead	54	47	57	59
Zinc	71	79	82	87
Automobiles				
Passenger cars	102	117	79	94*p*
Motor trucks	104	119	57	93*p*
Fuels				
Bituminous coal	74	87	87	97*p*
Anthracite coal	55	70	58	77*p*
Petroleum, crude*r*	86*r*	85*r*	88*p*	87*p*
Petroleum products	70	72	73	..
Electric power	87	94	94*p*	94*p*
Textiles and Leather Products				
Cotton consumption	86	105	102	106
Wool consumption	121	102	102	..
Silk mill activity	63	64	65	63*p*
Rayon deliveries*	99	118	97	92
Shoes	110	109	113*p*	..
Foods and Tobacco Products				
Meat packing	81	94	101	108
Wheat flour	87	77	80	82
Tobacco products	90	94	93	95
Miscellaneous				
Cement	49	65	70	74
Tires	93	104	107	..
Newsprint paper*r*	81*r*	80*r*	82*r*	86*p*
Machine tools	99	119	127	150

p Preliminary *r* Revised * For quarter ended

Indexes of Business Activity

Business activity in December in general appears to have compared favorably with preceding months, after allowance for the usual seasonal movements. Shipments of freight over the railroads showed a seasonal decline, but of less than the usual amount for the time of year, and retail sales of new passenger automobiles were reported to have been made in large volume. Department store trade in New York City and Northern New Jersey, after a comparatively poor start in the first half of December, which apparently was attributable at least in part to unfavorable weather conditions, improved considerably in the remaining period before Christmas, and for December 1 to 24, inclusive, average daily sales were about 9 per cent larger than a year previous, and were in approximately the same dollar volume as in December 1931. In other parts of the country retail trade was reported to have increased at least as much over a year previous as in New York.

For the year 1936 department store sales for the country as a whole will apparently show an increase of



Dollar Volume of Sales of Reporting Department Stores in the New York Federal Reserve District and in the United States, Yearly 1929-1936 (1929 = 100 per cent; 1936 partly estimated)

about 11½ per cent over 1935, and in the New York Federal Reserve District sales will show an increase of approximately 10 per cent. As the accompanying diagram indicates, department store trade for the entire country, after declining somewhat further than in this district from 1929 to 1933, has subsequently shown a more rapid recovery. The drop in the dollar volume of sales from 1929 to 1933 was 40 per cent for the country as a whole, as compared with 35 per cent for this district, but from 1933 to 1936 sales for the entire country rose 30 per cent, as compared with an increase of 20 per cent in this district, so that in 1936 department store sales were somewhat closer to the 1929 level for the country as a whole than for this district.

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

	1935	1936		
	Nov.	Sept.	Oct.	Nov.
Primary Distribution				
Car loadings, merchandise and misc.	68	73	74	78
Car loadings, other	64	78	80	87
Exports	63	53	56	..
Imports	71	76	72	..
Distribution to Consumer				
Department store sales, U. S.	79	88	87	90
Department store sales, 2nd Dist.*r*	83*r*	87*r*	87*r*	92*r*
Chain grocery sales	70	68	68	70
Other chain store sales	92	96	96	96
Mail order house sales *r*	84*r*	98*r*	101*r*	95*r*
Advertising	64	65	69	72
New passenger car registrations	85	102	93	80*p*
Gasoline consumption	88	90	94	..
General Business Activity				
Bank debits, outside New York City	66	66	67*p*	69*p*
Bank debits, New York City	50	41	41	50
Velocity of demand deposits, outside New York City	72	67	68	72
Velocity of demand deposits, New York City	43	42	40	45
New life insurance sales	58	55	54	54
Factory employment, United States	89*r*	95*r*	96*r*	97*r*
Building contracts	51	46	44	55*p*
New corporations formed in N. Y. State	56	60	58	59
General price level*	149	156	156	157*p*
Composite index of wages*	189	191	194	195*p*
Cost of living*	142	144	143	143*p*

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

Employment and Payrolls

Employment and payrolls in New York State factories remained virtually unchanged from the middle of October to the middle of November although the usual seasonal movement is decidedly downward. Consequently, this bank's seasonally adjusted index of employment rose to the highest level since July 1930, and the adjusted payrolls index reached the highest point since March 1931. Compared with a year ago, the number of factory workers employed in New York State showed an increase of 10 per cent, and payrolls an increase of 17 per cent. From October to November declines in employment in the food and clothing groups were more than offset by increases in the number of workers in the building material, metals and machinery, and textile industries.

For the United States as a whole, private employment in manufacturing and nonmanufacturing industries reporting to the Department of Labor, which include more than half the working population of the country, showed a further small increase from the middle of October to the middle of November, continuing the successive monthly advances which started last February. Over 1,100,000 more workers were reported employed by these industries on November 15 this year than at the same date a year ago, and weekly payroll disbursements were nearly $50,500,000 higher.

Commodity Prices

The upward movement of prices of the principal basic commodities which began in November continued during December, and new highs for the year were established by a number of commodities. The comprehensive wholesale price index compiled by the Bureau of Labor Statistics from 784 commodity quotations was 3 per cent higher on December 19 than on October 31, and 7 per cent above the year's low reached in May, and reached the highest point since September 1930. Virtually all the groups comprised in this index participated in the advance. Actively traded basic commodities, such as are included in the Moody's Investors Service commodity price index, showed a larger rise than the general average. Since the end of October this index of actively traded basic commodities has risen 14 per cent to a point 27 per cent above the 1936 low reached in May, and is now about 160 per cent above the low point of the depression in February 1933.

Marked advances occurred in the prices of agricultural commodities during December. The cash quotation for Number 1 Northern wheat at Minneapolis rose 23⅜ cents to $1.63¾ a bushel, the highest price since July 1926, and futures quotations showed advances which were nearly as large. Corn rose 4⅜ cents a bushel, and steers advanced 75 cents and hogs 65 cents a hundredweight. Smaller price increases occurred in hides and raw sugar. Rubber at 23¼ cents a pound, and domestic wool at 95.34 cents a pound reached the highest level since 1929, and cotton prices gained about ½ cent a pound. Raw silk, however showed a net recession, following an advance toward the end of November.

Several metal prices reached levels in December which had not been attained in the last six or seven years. Scrap steel at Pittsburgh rose $2 to $19.25 a ton, and zinc increased 45 points to 5.50 cents a pound, both prices the highest since 1929, while advances in copper and lead prices raised them to new levels since 1930.

Building

Total building and engineering contracts awarded in the New York and Northern New Jersey area declined 22 per cent in November, but on an average daily basis, contracts were only 8 per cent below the October rate, which was about in accord with the customary seasonal change. For the first time in nearly a year and a half, however, the average daily volume was lower than that for the corresponding period a year earlier, due to declines of 24 per cent in heavy engineering work and of 33 per cent in other types of nonresidential building, which were not altogether offset by a gain of 73 per cent in residential contracts. Although contracts for nonresidential work in general were smaller than a year ago, the average daily rate of commercial and factory building awards in November 1936 was more than twice as high as in November 1935. The decline in the daily rate of building contracts from October to November was confined to nonresidential construction other than heavy engineering types, residential work advancing 5 per cent and public works and utilities over 14 per cent.

For the first eleven months of 1936 total contracts exceeded those placed in the same period of 1935 by more than 50 per cent. All major building classifications shared in the advance over a year ago, residential building with an increase of 63 per cent registering the largest gain.

For the 37 States covered by the F. W. Dodge Corporation report, total contracts awarded in November were 8 per cent lower than in October, but after allowing for the difference in working days, the rate at which contracts were placed was 9 per cent above that maintained in October, and this bank's seasonally adjusted index rose 11 points to 55 per cent of the long term trend of growth. Average daily contracts in November were approximately 21 per cent higher than in November 1935, an increase of 88 per cent for residential work being partly offset by a smaller volume of construction of other types. For the first eleven months of 1936 total contracts were 57 per cent in excess of those placed in the same period last year, each major classification of construction recording a substantial increase.

Data for the first half of December indicate a slackening in building activity of more than the usual seasonal proportions. Average daily contracts declined 28 per cent from the level of November, and 41 per cent from the average for the corresponding period a year ago, which was a relatively active period for projects financed by the Federal Government.

Department Store Trade

For the Christmas shopping period, December 1 to 24 inclusive, total sales of the reporting department stores in the Metropolitan area of New York were 12.5 per cent higher than a year ago. There was one more shopping day this year than last, however, and for the corresponding 20 business days sales were 8.9 per cent larger this year than last. The New York and Brooklyn stores recorded an 8.5 per cent increase in sales for the 20 days, while the Northern New Jersey stores registered a 10.6 per cent increase. On the basis of these figures for the period up to Christmas, the total for the month appears to have been about equal to the December 1931 total.

This estimate in combination with figures for the first 11 months of the year indicates that total sales for the year 1936 in the Second Federal Reserve District were approximately 9.8 per cent higher than in 1935, as compared with an increase of only 1.7 per cent between 1934 and 1935.

Total November sales of the reporting department stores in this district were 7.6 per cent higher than in 1935, but after allowing for differences in number of shopping days, the increase was the largest since July.

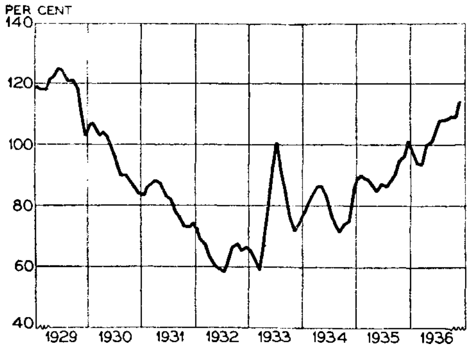
Locality	Percentage change November 1936 compared with November 1935		Per cent of accounts outstanding October 31 collected in November	
	Net sales	Stock on hand end of month	1935	1936
New York	+ 7.6	+ 5.8	53.3	51.3
Buffalo	+ 4.4	+16.8	51.6	44.4
Rochester	+ 7.6	+ 5.0	50.1	50.6
Syracuse	+12.4	+ 8.2	42.6	42.8
Northern New Jersey	+ 9.2	+12.2	44.8	45.0
Bridgeport	+ 3.7	+10.2	42.4	44.0
Elsewhere	+ 4.4	— 3.7	35.0	36.2
Northern New York State	— 4.5	......	....	....
Southern New York State	+ 1.9	......	....	....
Central New York State	+ 4.0	......	....	....
Hudson River Valley District	+ 8.7	......	....	....
Capital District	+ 9.2	......	....	....
Westchester and Stamford	— 3.4	......	....	....
Niagara Falls	+ 1.1	......	....	....
All department stores	+ 7.6	+ 6.9	49.4	48.1
Apparel stores	+15.2	+ 2.4	49.3	49.0

Wholesale Trade

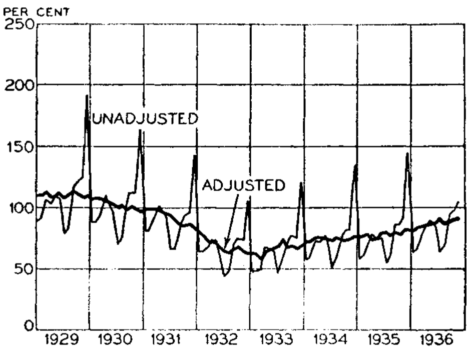
In November total sales of the reporting wholesale firms averaged 7.8 per cent higher than in 1935, a slightly larger increase than in October. Sales of the men's clothing and cotton goods concerns, and yardage sales of rayon and silk goods reported by the National Federation of Textiles, increased over a year ago by the largest amounts in three to five months, and sales of the grocery, hardware, and paper firms showed larger gains than in October. The diamond and jewelry concerns reported sales substantially higher than in the preceding year, although the gains were somewhat smaller than in the past few months. The shoe firms, on the other hand, showed a decrease in sales, the largest since last April, and the stationery firms reported the largest decline in sales in over a year.

Commodity	Percentage change November 1936 compared with November 1935		Per cent of accounts outstanding October 31 collected in November	
	Net sales	Stock end of month	1935	1936
Groceries	+ 4.9	+12.4	87.2	85.2
Men's clothing	+10.3	......	31.7	35.3
Cotton goods	+16.7	......	36.7	39.6
Rayon and silk goods	+15.0*	......	61.8	60.0
Shoes	—11.8	......	34.4	41.4
Hardware	+11.4	+23.8	47.7	46.6
Stationery	— 6.7	......	53.5	56.5
Paper	+10.4	......	47.1	55.6
Diamonds	+20.9	+ 5.3	17.3	15.8
Jewelry	+56.1	+145.6		
Weighted average	+ 7.8	......	53.7	54.8

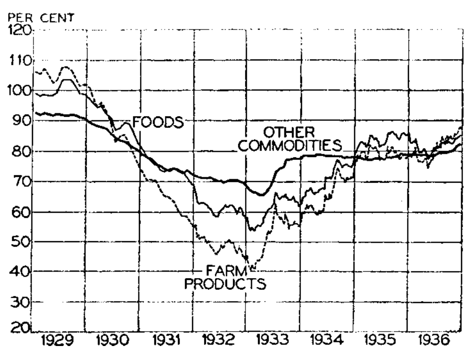
* Quantity figures reported by the National Federation of Textiles, Incorporated, not included in weighted average for total wholesale trade.



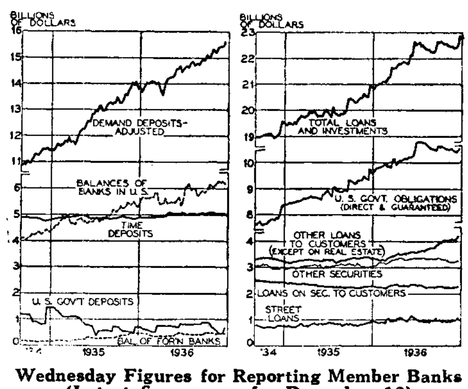
Index Number of Production of Manufactures and Minerals Combined, Adjusted for Seasonal Variation (1923-25 average = 100 per cent)



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)



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

Business Conditions in the United States

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

PRODUCTION, wage payments, and the distribution of commodities to consumers increased considerably from October to November. Wholesale commodity prices have advanced steadily since the end of October.

Production and Employment

The Board's index of industrial production, which makes allowance for changes in the number of working days in the month and for the usual seasonal variations, was 114 per cent of the 1923-1925 average in November, as compared with 109 per cent in October. Output of both durable and nondurable manufactures showed a considerable rise. Production of steel ingots increased further to a rate of 79 per cent of capacity in November, and output of automobiles also increased. Figures for the first three weeks of December indicate continued expansion in output of both steel and automobiles. In the plate glass industry, where there has been a strike, production was sharply reduced in November, and activity at lumber mills declined, reflecting the effects of the maritime shipping strike on the Pacific Coast. Increases in output were reported at meat packing establishments and textile mills, and sugar meltings and output of tobacco products declined by less than the usual seasonal amount. At mines, coal production increased and output of crude petroleum and iron ore showed a smaller than seasonal reduction.

Value of construction contracts awarded, according to figures of the F. W. Dodge Corporation, continued at about the same rate in November as in the previous month.

Factory employment showed little change from October to November, although a decrease is usual at this season of the year, and the Board's seasonally adjusted index advanced to 96 per cent of the 1923-1925 average. The number employed at factories producing durable goods continued to increase, with the largest expansion in the automobile and machinery industries. There was a decline in employment at lumber mills and in the glass industry. In the nondurable goods industries as a group employment showed a smaller decline than is usual in November. At shoe factories and establishments producing wearing apparel smaller than seasonal declines were reported and there were increases in employment at cotton and woolen textile mills and at meat packing plants.

Distribution

Department store sales increased substantially in November, and there was also a rise in sales at variety stores and at chain grocery stores. Sales by general merchandise stores and mail order houses serving rural areas declined from the high level reported for October.

Freight car loadings showed a smaller than seasonal decrease in November. Loadings of coal, coke, and grain increased contrary to the usual tendency, and shipments of miscellaneous commodities and of most other classes of freight declined by less than the seasonal amount.

Commodity Prices

The general level of wholesale commodity prices continued to advance from the middle of November to the third week of December. There were substantial increases in the prices of wheat, flour, nonferrous metals, and rubber. Prices of wool, cotton yarns, and worsted yarns advanced somewhat further and cotton, pig iron, and steel scrap prices also increased in this period.

Bank Credit

The reserve position of member banks in recent weeks has been influenced largely by temporary seasonal developments in connection with holiday currency requirements and mid-December financing by the United States Treasury.

Notwithstanding the increased demand for currency for Christmas shopping, there was a further growth in demand deposits at weekly reporting member banks through the first half of December, reflecting additions to monetary gold stock, as well as a sharp increase in bank loans.

At reporting banks outside New York City holdings of Government securities increased by $140,000,000 in the four weeks ended December 16, while at New York City banks they showed a further small decline. There was an increase of $100,000,000 in loans to brokers and dealers in securities in New York City, largely for the purpose of buying United States Government securities. Commercial loans showed a further increase of $150,000,000, carrying the total volume of such loans to a level $800,000,000 higher than a year ago.