MONTHLY REVIEW

of Credit and Business Conditions

Second Federal Reserve District

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

Money Market in January

On January 31 the Board of Governors of the Federal Reserve System announced an increase of 33⅓ per cent in the reserve requirements of member banks, one half of the increase to become effective on March 1, 1937, and the remaining half on May 1. The percentages of reserves which member banks will be required to maintain against their deposits before and after these changes are shown in the following table.

Class of bank	Demand deposits			Time deposits		
	Present require-ments	March 1 through April 30	May 1 and after	Present require-ments	March 1 through April 30	May 1 and after
Central Reserve City...	19½	22¾	26	4½	5¼	6
Reserve City..........	15	17½	20	4½	5¼	6
"Country"...........	10½	12¼	14	4½	5¼	6

As the Board's announcement* stated, "This action completes the use of the Board's power under the law to raise reserve requirements", and the announcement also stated that "It is not the present intention of the Board to request from Congress additional authority to absorb excess reserves by means of raising reserve requirements."

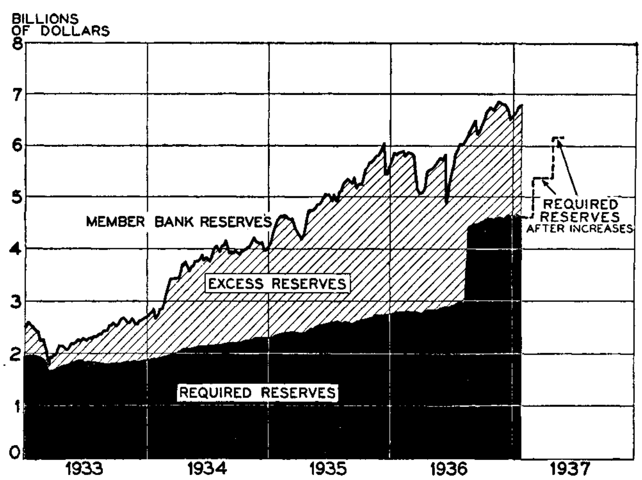
Notice of the possibility of action to reduce excess reserves had been given by the Chairman of the Board in a statement issued on November 21, 1936. The statement called attention to the "continued and substantial increase of member bank reserves, resulting principally from a further large inflow of 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", and indicated that consideration was being given to "the various problems raised by the effects of these reserves with a view to taking such action at such time as appears to be necessary in the public interest."

The Board's statement of January 31 called attention to the fact that the power to change reserve requirements was to be used, in the language of the law, "in order to prevent injurious credit expansion or contraction", and stated that the excess reserves eliminated by the Board's action "are superfluous for the present or prospective needs of commerce, industry, and agriculture and . . . in the Board's judgment, would result in an injurious credit expansion if permitted to become the basis of a multiple expansion of bank credit."

If the announced increase in reserve requirements were to become effective immediately, member banks would still have a total of at least $600,000,000 of excess reserves, a larger amount than at any time in recent years prior to 1933. The Board estimates that "after the full increase has gone into effect, member banks will have excess reserves of approximately $500,000,000, an amount ample to finance further recovery and to maintain easy money conditions."

During the past month excess reserves of member banks in this district and elsewhere have risen substantially as anticipated, due largely to the seasonal retirement of currency from circulation, and to a smaller extent to net disbursements of funds by the Treasury. On January 27 excess reserves of the principal New York City banks amounted to $850,000,000, and the total amount of excess reserves for all member banks of the country was $2,150,000,000, as compared with about $630,000,000 and $1,880,000,000, respectively, on December 23.

The January increase in excess reserves for the country as a whole fell somewhat short of expectations and aggre-



Reserve Position of All Member Banks, Showing Required Reserves and Excess Reserves to Date, and Estimated Amount of Required Reserves after Increases of March 1 and May 1, Based on Present Requirements

* The full text of the Board's statement may be had on request at the Federal Reserve Bank of New York or at the offices of the Board of Governors of the Federal Reserve System in Washington, D. C.

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gate excess reserves on January 27 were slightly below the levels reached in November for two reasons. In the first place, the return flow of currency to the Reserve Banks during the four-week period was somewhat less than the estimated seasonal movement, notwithstanding a larger than usual outflow of currency last autumn. The resulting net increase of nearly $200,000,000 in the amount of currency in use since the end of last July indicates a continuation of the upward trend which has prevailed since the beginning of 1935. In that period the amount of currency outstanding has increased by nearly $1,000,000,000.

A second factor in the limited amount of the January increase in excess reserves was the maintenance of Government balances in the Reserve Banks at a level somewhat higher than prevailed for a number of weeks preceding the December tax period. On January 27 Government balances in the Reserve Banks were approximately $180,000,000, as compared with about $50,000,000 in the first half of November. In accordance with the policy announced by the Secretary of the Treasury on December 21, the Treasury has held inactive the gold that has been added to the monetary gold stock of the United States during the past month, and withdrawals of funds from commercial banks have been made in amounts sufficient to cover payments for imported and domestic gold purchased by the Treasury, and also sufficient to cover a considerable part of current Government expenditures.

A review of the reserve position of individual member banks in this district in the latter part of January indicated no material change from the situation revealed by the survey of the reserve position of member banks last November. New York City banks, in general, held somewhat larger amounts of excess reserves in the latter part of January than two months earlier, and a number of "country" member banks in the district, which last November had comparatively little excess reserves, also held somewhat larger amounts in January. On the other hand, there were some banks in the district whose excess reserves were reduced during this period. Most of the banks in the district were in a position readily to meet the announced increase in reserve requirements.

	Jan. 31, 1936	Dec. 31, 1936	Jan. 29, 1937
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	¼
Customers' rates on commercial loans (Average rate of leading banks at middle of month)	1.67	1.71	1.71
Treasury securities:			
Maturing September (yield)	No yield	No yield	No yield
Maturing February 1938 (yield)	....	0.23	0.28
Average yield on Treasury notes (1-5 years)	0.72	0.82	0.90
Average yield on Treasury bonds (more than 5 years to earliest call date)	2.48	2.13	2.20
Average rate on latest Treasury bill sales 273 day issue	0.10	0.29	0.36
Federal Reserve Bank of New York rediscount rate	1½	1½	1½
Federal Reserve Bank of New York buying rate for 90 day indorsed bills	½	½	½

* Nominal.

Member Bank Credit

Total loans and investments of weekly reporting member banks in New York City and in 100 other principal cities throughout the country showed some recession in the four weeks ended January 20 following the increases in the closing weeks of 1936. Loans other than security loans (largely commercial loans) declined $106,000,000 in New York City and $143,000,000 in all reporting member banks between December 23 and January 20, but remained higher than at any time last year prior to December 16. One factor in the January reduction was the redemption of a substantial amount of Commodity Credit Corporation notes which were purchased by the banks last July. The remainder apparently reflected seasonal repayments of loans made before the year end.

Loans on securities declined $63,000,000 in New York City and $104,000,000 in all reporting member banks during the four-week period, reflecting, at least in part, the repayment of loans obtained by Government security dealers in December to carry their enlarged portfolios of Government securities.

Holdings of Government securities by the reporting New York City banks continued to decline during the past month, and on January 20 were nearly $100,000,000 less than four weeks previous and were at the lowest levels since the end of April 1936. Government security holdings by reporting member banks in other principal cities increased $64,000,000 during the month, however, so that the net reduction for the country as a whole was comparatively small.

Adjusted demand deposits declined about $80,000,000 in New York City and about $150,000,000 in all reporting banks in the week ended January 6, probably reflecting interest and dividend disbursements from accounts in these banks, but showed a largely offsetting rise in the two following weeks, and on January 20 were not far below the record level reached on December 16.

Government Securities

After strengthening at the year end, following some recession in December, United States Government bond prices again developed a declining tendency in January. The average price of bonds outstanding with more than 5 years to earliest call date or maturity declined ¾ point between December 31 and January 30, but this decline and the net recession of ⅛ point in December canceled less than one-half of the 2 point rise which occurred in the average price between November 2 and December 8. On an average yield basis, Treasury bonds had gone from a 2.32 per cent basis on November 2 to a 2.10 per cent basis on December 8, and on January 30 were selling to yield 2.22 per cent on the average. The largest of the January declines in Treasury bond prices were in the shorter maturities, some of which dropped lower than on November 2, while others remained somewhat above. The longer maturity Treasury bonds all remained well above the November 2 quotations, and in fact prices of some of these issues near the end of January compared favorably with the December 8 high levels. The 2½ per cent bonds of 1949-53, issued on December 15, were quoted on January 30 at 101 8/32, as compared with 101 4/32 toward the close of December.

The Treasury note market, in which there had been larger declines in December than in Treasury bonds,

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showed less decline in January than in December. The average yield on notes due between 1 and 5 years rose from 0.82 to 0.92 per cent, as compared with a rise of from 0.61 to 0.82 per cent in December.

Some further rise occurred also in January in the rates at which new issues of Treasury bills were sold. Average rates on the four $50,000,000 weekly issues of 273 day bills that were sold during the month moved successively higher from 0.316 to 0.361 per cent, the latter being the highest rate on Treasury bill financing since March 7, 1934, when an issue of 182 day bills carried a 0.43 per cent average rate. With the sale of $50,000,000 of 71 day bills on January 6, 1937, the Treasury completed the issuance of a total of $300,000,000 of short bills maturing on March 16, 17, and 18, the days of heaviest income tax collections in the March quarter. This issue represented the sole increase in the public debt through bill financing in January, as the 273 day bills sold replaced maturities of corresponding amounts.

Bills and Commercial Paper

The bill market continued in January to be slightly more active than in the period prior to December. It was reported that a substantial part of the investment demand for bills came from banks outside New York City, apparently a reflection of the stronger reserve position of those banks. Following increases in yields on Treasury securities and growing press discussion of a possible rise in member bank reserve requirements, the bill dealers on January 13 advanced their rates by 1/16 per cent for bills maturing in four months and by 1/8 per cent for five and six month maturities. Offering rates thus became: 1/4 per cent for 1 to 90 day bills; 5/16 per cent for 4 months; and 7/16 per cent for 5 and 6 month bills, with bid rates 1/16 per cent higher in each instance.

The volume of bills outstanding at the end of December totaled approximately $373,000,000, a figure $24,000,000 larger than in November, but $24,000,000 less than in December 1935. The rise for the month was occasioned by further seasonal increases of $14,000,000 in import bills and $9,000,000 in export bills. At the end of December, accepting institutions held about 85 per cent of all bills outstanding, a smaller proportion than for any month since March 1934, leaving approximately $58,000,000 of bills for others.

(Millions of dollars)

Type of acceptance	Dec. 1935	Nov. 1936	Dec. 1936
Import	107	112	126
Export	94	77	86
Domestic shipment	11	13	12
Domestic warehouse credit	99	70	71
Dollar exchange	2	1	2
Based on goods stored in or shipped between foreign countries	84	76	76
Total	397	349	373

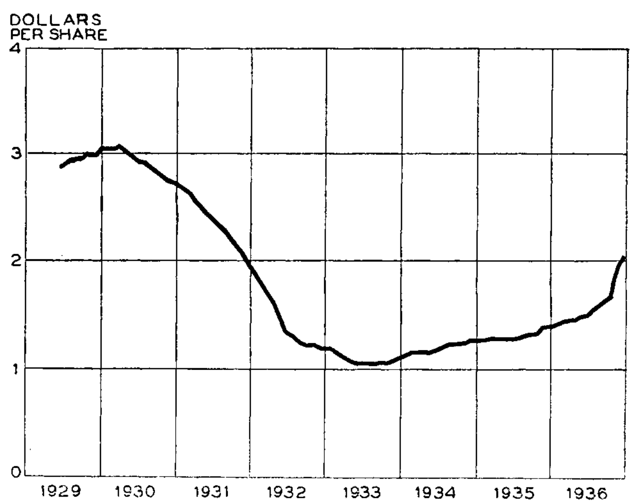
Some increase in borrowings by concerns filling their credit requirements through the facilities of the commercial paper market was reported since the turn of the year, in accordance with the usual seasonal tendency. These open market borrowings represented a diversified list of commercial and mercantile activities. Demand for business notes by the banks continued in excess of dealers' offerings and the new notes that entered the market moved rapidly into investment portfolios. The prevailing rate for average grade prime four to six month commercial paper remained at 3/4 per cent, with occasional sales at slightly lower levels when especially choice paper became available.

Outstanding paper reported by commercial paper houses at the end of December totaled $215,000,000, a volume 12 per cent higher than in November and the largest amount outstanding since September 1931. On only two other occasions since the collection of the figures was begun about 18 years ago have there been increases between November and December.

Security Markets

Although stock prices showed considerable irregularity in January, the general level moved somewhat higher, reversing the downward tendency of December. As a result the combined average of all types of stocks reached a new high for the recovery movement, slightly exceeding the November high point. Industrial and public utility stocks reached higher quotations than in November, while the railroad stocks remained somewhat lower than in November. The volume of trading on the New York Stock Exchange was larger than in December or November, and in fact was the heaviest for a number of months. In the over the counter market, there was a strong advance in bank stock prices, and the average price of New York City bank shares rose about 20 per cent during January to the highest level since the latter part of 1931.

In connection with the rise in stock prices during the past few years it is interesting to compare the increase that has occurred in dividend rates on stocks. As the accompanying diagram indicates, the average dividend rate per share on 600 common stocks has been increased from $1.05, the 1933 low point, to $2.03 in December 1936, after having fallen from the early 1930 high of $3.06. In other words, the average dividend rate at the present time is about 100 per cent above the low point



Average Dividend Rate per Share on 600 Common Stocks (Moody's Investors Service data)

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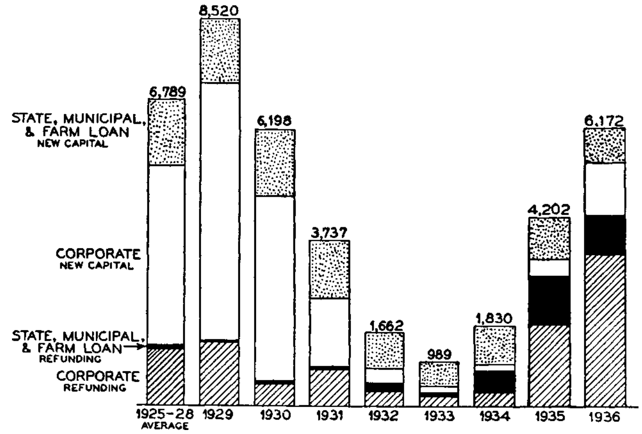
of the depression and about midway between the 1930 high and the 1933 low. The general level of stock prices, likewise, has recovered approximately one-half of the decline between the high point of 1929 and the low point in 1932; the range of fluctuation in stock prices, however, has been much greater than in average dividend rates. The sharp advance toward the end of 1936 in the average dividend rate shown in the diagram reflects to a considerable extent extra disbursements by corporations to avoid or reduce the surtax on undistributed profits.

Domestic corporation bonds as a whole showed a slight net decline for January. In the first ten days of the month, prices of high grade corporate bonds increased further to new high levels, but later declined somewhat, in keeping with some recession in the Government bond market. Medium grade corporate bonds tended to advance for a longer time, reaching successive new highs for a number of years past, but later in the month these issues, too, receded somewhat.

New Financing

The volume of new security flotations continued to be rather heavy in January, despite the absence of any very large single issue such as the American Telephone and Telegraph Company offering of December. In the aggregate, January new issue financing amounted to about $580,000,000, as compared with $750,000,000 in December 1936, $525,000,000 in January 1936, and only $140,000,000 in January 1935. Of the past month's issues, approximately 70 per cent of the total volume was to provide funds to refund other securities, and the remainder was for other corporate purposes, including a small amount for repayment of bank loans, some additions to working capital, and expenditures on new plant and equipment. Domestic corporation issues in January totaled $260,000,000, of which stock issues accounted for a much larger proportion than in some time, amounting to $120,000,000; most of these issues were offered to present stockholders. State, municipal, and farm loan financing totaled $210,000,000, and foreign issues came to $87,000,000.

In the domestic corporate field, the larger issues included $55,100,000 Consumers Power Company $4.50 preferred stock, offered for a limited time to stockholders and then to the public; $50,000,000 Great Northern Railway Company 30 year 3¾ per cent general mortgage bonds priced at 97½ to yield 3.89 per cent; and $40,000,000 Tide Water Associated Oil Company 15 year 3½ per cent debentures priced at 101 to yield 3.41 per cent, and $51,500,000 of $4.50 preferred stock of the same company. State and municipal financing included $50,000,000 City of New York 40 year 3 per cent corporate stock priced to yield 2.85 per cent; $47,000,000 City of Los Angeles Department of Water and Power bonds of which half was in 40 year 3½ per cent bonds priced to yield 3.41 per cent, and half in 1-40 year 3½ per cent serial bonds; and $25,000,000 Boston Metropolitan District 1-25 year 2¼ per cent serial bonds. Federal Intermediate Credit Bank 1 to 9 month debentures in the total amount of $28,400,000 were offered to yield from 0.20 to 0.45 per cent, largely replacing maturities of $30,900,000. Foreign financing was composed chiefly of $55,000,000 Dominion of Canada 30 year 3 per cent bonds priced to yield 3.10 per cent, and $30,000,000 of 7 year 2¼ per cent bonds priced to yield 2.33 per cent.



Offerings of Domestic Securities in 1936 Compared with Preceding Years (Commercial and Financial Chronicle data—investment trust issues excluded; in millions of dollars)

Data for the full year 1936 indicate a considerable increase in new security issues in that year. As is shown in the accompanying diagram, total issues were close to $6,200,000,000, approximately the same volume as in 1930, but somewhat less than the average for the 1925-28 period and 28 per cent less than in 1929. The principal difference between security financing in 1936 and in the years from 1925 to 1930 was in the amount of refunding operations. Such operations in 1936 were even larger than in 1935, and far in excess of any previous year. Refunding by domestic corporations in 1936 exceeded $3,300,000,000, as compared with $1,900,000,000 in 1935, and an average of $1,200,000,000 in the years 1925-28. State, municipal, and farm loan refunding in 1936 amounted to nearly $900,000,000, or somewhat less than in 1935, but with that exception was also the heaviest volume of record.

There was also a noticeable rise in corporate security issues for new capital purposes, the total of which amounted to $1,200,000,000, as compared with only $400,000,000 in 1935. In 1931 securities offered for this purpose amounted to more than $1,500,000,000 and the average for 1925-28 was about $4,000,000,000. New capital issues by public bodies were somewhat less in 1936 than in other recent years with the exception of 1933. Issues for new capital purposes accounted for 32 per cent of total security flotations in 1936, as compared with an average of 81 per cent in the years 1925-1928.

Foreign Exchanges

In general, European currencies showed a declining tendency during January. The French franc after rising in the first few days of January to $0.0467⅜, declined gradually to $0.0466⅛ on the 30th, and the discount on three month forward contracts widened from 8 15/16 per cent per annum to 11 per cent at the end of the month. The pound sterling, which was quoted at $4.91 at the end of December, advanced to $4.91⅜ on January 5, but receded gradually during the remainder of the month to below $4.90 on the 30th. The Swiss franc tended

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to move with the French franc, declining from $0.2299 on the 4th to $0.2282 on the 27th, and closed the month at $0.2288¼. The Dutch guilder, however, was practically unchanged at $0.5476, and the belga, after fluctuating within a range of 7½ points during the month, closed at $0.1688, slightly higher than at the end of December.

Among the Far Eastern exchanges, the Japanese yen, which had weakened in the last few days of December to $0.2825, opened in January at $0.2840 and advanced irregularly to $0.2870 on the 15th in connection with the promulgation of Government regulations for the control of imports. It declined thereafter to $0.2850 on the 30th. The Shanghai rate was unchanged at $0.2981 until the 30th when it advanced slightly, and Hongkong exchange was steady at $0.3069; the Indian rupee closed at $0.3704, somewhat lower than at the beginning of the month.

The Argentine peso recorded only minor fluctuations in January, and the Brazilian official milreis was unchanged from the 5th at $0.0868.

Gold Movement

The gold import movement to the United States continued during January, and in somewhat larger volume than in the previous month. Imports affecting the monetary gold stock totaled $81,000,000, of which $61,600,000 from England, $6,400,000 from Switzerland, $5,900,000 from India, $5,100,000 from Canada, and $1,200,000 from Australia were received at New York, and $700,000 from Hongkong arrived on the West Coast.

These imports, together with a net release of $1,900,000 of gold from earmark for foreign account at the Federal Reserve Bank of New York, and receipts from other sources, including newly mined and scrap gold, resulted in an increase of about $100,000,000 in the monetary gold stock of this country during the month. According to the Treasury daily statement of January 29, $121,900,000 of gold is being held in the General fund as "inactive gold", representing receipts of gold since the announcement by the Secretary of the Treasury on December 21.

Central Bank Rate Changes

On January 27, an increase in the Bank of France discount rate from 2 per cent to 4 per cent was announced. The rate had been at 2 per cent since October 1936 when it was reduced in three steps from 5 per cent.

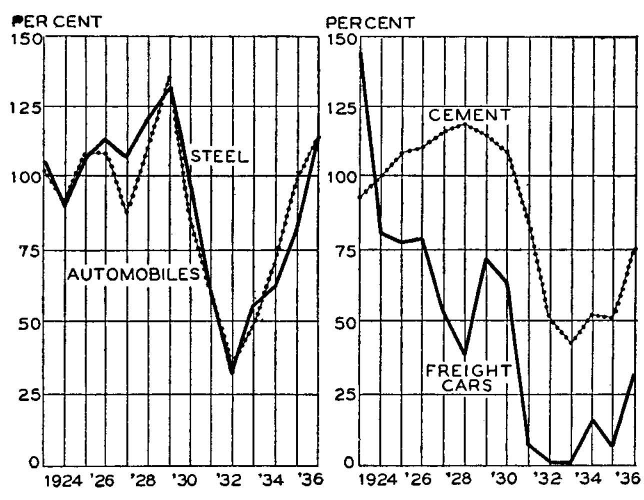
Three other foreign central banks lowered their discount rates during January, as follows: Bank of Danzig, from 5 to 4 per cent effective January 2; Bank of Greece, from 7 to 6 per cent effective on the 4th; and Bank of Java, from 4 to 3 per cent effective on the 14th.

Production

The volume of industrial production during January was retarded by strikes in the automobile industry, and, toward the end of the month, by serious floods in the Ohio River Valley. Automobile production declined from the high December level as most of the plants of the largest producer were closed by strikes, and operations of some other producers were curtailed by a shortage of glass resulting from recently settled strikes in the glass industry. Steel mills utilized the lull in automotive requirements to produce steel against the heavy backlogs of orders built up in November and December, and against new business placed during the month by the railroads and other steel-consuming lines. Late in January steel mill operations in the Ohio River area were reduced owing to the floods, but outside the affected area operations were maintained at a high rate. Cotton mills, although receiving a smaller volume of new business, remained exceptionally active, bituminous coal production was little changed from December, and the output of electric generating plants was reduced only seasonally.

The volume of industrial production on the whole was approximately unchanged from November to December, but as there is usually a substantial decline in December, the seasonally adjusted index of the Board of Governors of the Federal Reserve System advanced seven points to 121 per cent of the 1923-25 average, a figure exceeded in only three months of 1929. Steel mills, partly owing to orders received in anticipation of price advances and because of the early introduction of new automobile models, slackened operations much less than in most other years and the daily rate of output was larger than in any preceding December. Automobile production increased 16 per cent further to the highest point since April, and mill consumption of cotton rose 3 per cent over the high November level. Pig iron output, lead production, and shoe manufacturing, all of which usually tend to decline in December, were higher than in November, and rayon deliveries recovered part of the autumn recession. Bituminous coal output was at a lower rate than in November, and meat packing plants were slightly less active.

During the year just completed the volume of industrial production generally was the largest since 1929. The further recovery of the so-called "heavy" industries was one of the features of the rise in industrial activity during the past year, but while activity in certain of these lines reached relatively high levels by the end of the year the output of others remained considerably below predepression levels. The accompanying diagram shows the production of steel, automobiles, cement, and freight cars (measured by deliveries), each in terms of the average for 1923-25. Steel production in 1936 rose 40



Yearly Production of Steel, Automobiles, Cement, and Freight Cars (1923-25 average=100 per cent)

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per cent over 1935 to 47,000,000 tons, approximately the same as in 1926, 7 per cent less than in 1928, and 15 per cent less than in 1929; with these exceptions production was the largest on record. Automobile production was 13 per cent higher than in 1935 and within 17 per cent of the 1929 peak, and was larger than in any other year. The right-hand side of the diagram shows production in two industries where recovery was especially late in appearing, and where, despite sharp advances in 1936, the total recovery so far has been relatively moderate. Production of cement in 1936, while 46 per cent higher than in 1935, was 37 per cent less than at the peak of the building boom in 1928 and 31 per cent less than the average of the 1923-30 period. Railway purchases of railway equipment have risen sharply, particularly in the past few months, but although deliveries of freight cars in the full year 1936 were four and a half times the figure for 1935, they remained 56 per cent below 1929 and 79 per cent below the post-war peak in 1923.

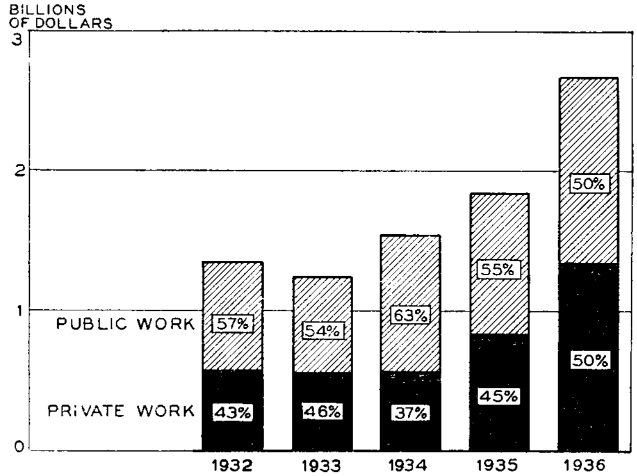
(Adjusted for seasonal variations and usual year to year growth)

	1935	1936		
	Dec.	Oct.	Nov.	Dec.
Metals				
Pig iron	75	94	97*r*	110
Steel	87	102	115	119
Lead	58	57	59	65
Zinc	73	82	87	85
Automobiles				
Passenger cars	101	79	94	110*p*
Motor trucks	108	57	93	116*p*
Fuels				
Bituminous coal*r*	77*r*	88*r*	101*r*	96*p*
Anthracite coal*r*	84*r*	62*r*	83*r*	92*p*
Petroleum, crude*r*	87*r*	88*r*	86*r*	91*p*
Petroleum products	70	73	72	
Electric power	88	94	94	95*p*
Textiles and Leather Products				
Cotton consumption	91	102	106	121
Wool consumption	105	102	126	
Silk mill activity	67	65	63	66
Rayon deliveries*	107	97	92	109
Shoes	128	113	120*p*	138*p*
Foods and Tobacco Products				
Meat packing	83	101	108	102
Wheat flour	86	80	82	83
Tobacco products	89	93	95	107
Miscellaneous				
Cement	54	70	74	81
Tires	93	107	145	
Newsprint paper	78	82	86	82*p*
Machine tools	100	127	150	245

p Preliminary *r* Revised * For quarter ended

Building

The total value of building and engineering contracts reported by the F. W. Dodge Corporation for 37 States in the calendar year 1936 was 45 per cent greater than in 1935 and more than double the volume in 1933, the low year for the depression period. In spite of this recovery the volume of building remained considerably below predepression levels, and the 1936 total represented only 40 per cent of the dollar value of the peak year 1928. Residential work in 1936, with a gain of 67 per cent, showed the largest advance over 1935. Heavy engineering projects, embracing public works and public utilities, were approximately one-third higher in 1936 than in the preceding year, and other types of nonresidential work showed a gain of over 40 per cent. A significant feature of the building situation during the past two years has been the increasing importance of private building. During the years 1932, 1933, and 1934, the value of private construction remained fairly constant at a low level of about $575,000,000 and represented approximately 40 per cent of the total value of all construction in those years, as the accompanying diagram indicates. During the past two years, however, private work has shown a marked increase, the value of such contracts in 1936 reaching a total of $1,346,000,000, or one-half of the total value of all contracts. Between 1935 and 1936 private work increased by 61 per cent while public work increased 32 per cent.



Total Value of Building and Engineering Contracts in 37 States, Showing Proportion of Private and Public Construction Work (F. W. Dodge Corporation data)

Largely because of a decline in public projects, the total of construction contracts in December 1936 was lower than that reported either in the preceding month or in December 1935. On an average daily basis, contracts were nearly 16 per cent below November and approximately 25 per cent lower than in December 1935. Although the rate of contracts for all the major types of building was smaller in December than in November, residential work was 45 per cent above the level of the preceding December.

In the New York and Northern New Jersey area, the total value of contracts was nearly 50 per cent higher in 1936 than in 1935; residential, factory, and public utility projects registered the largest advances. In December total contracts were approximately 13 per cent higher than in November, but the daily rate remained virtually unchanged, and the volume was 5 per cent less than in December 1935, although residential, public utility, commercial, and factory building all registered gains.

Data for the first three weeks of January indicate an increase in building activity, average daily contracts having advanced 13 per cent over the December level. The gain was largely due to a sharp contra-seasonal rise in contracts for nonresidential projects other than the heavy engineering types. The rate at which residential contracts were placed remained practically unchanged, although there is usually a pronounced downward movement at this time of the year. Public works and utility contracts declined more than seasonally.

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Indexes of Business Activity

During the first three weeks of January retail trade in 37 cities throughout the country was retarded somewhat by unseasonable weather conditions, but remained higher than in the corresponding period a year ago, according to reports to the Department of Commerce. In the New York Metropolitan area, department store sales for the first half of the month were 6 per cent higher than a year ago, but somewhat more than the usual seasonal decline from the December level appeared to have occurred. Wholesale trade was reported to have been stimulated by the early Easter and the possibility of increases in the prices of many commodities. Merchandise and miscellaneous freight car loadings in the first half of January were below the December average and bulk freight shipments were about at the level of the preceding month, although the usual seasonal movement is upward.

December indexes of general business activity and distribution of goods are shown below.

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

	1935	1936		
	Dec.	Oct.	Nov.	Dec.
Primary Distribution				
Car loadings, merchandise and misc.	71	74	78	84
Car loadings, other	71	80	87	85
Exports	58	56	52	52*p*
Imports	79	72	75	90*p*
Distribution to Consumer				
Department store sales, U. S.	84	87	90	91
Department store sales, 2nd Dist.*r*	87*r*	87*r*	92*r*	90*r*
Chain grocery sales	71	68	70	69
Other chain store sales	91	96	96	98
Mail order house sales*r*	88*r*	101*r*	95*r*	100*r*
Advertising *r*	78*r*	80*r*	83*r*	85*r*
New passenger car registrations	102	93	89	112
Gasoline consumption	86	94	94	
General Business Activity				
Bank debits, outside New York City	68	67	69	75*p*
Bank debits, New York City	47	41	50	50
Velocity of demand deposits, outside New York City	70	68	72	72
Velocity of demand deposits, New York City	43	40	45	48
New life insurance sales*r*	75*r*	75*r*	75*p*	67*p*
Factory employment, United States	90	96	97	100*p*
Building contracts	71	44	54	48
New corporations formed in N. Y. State	58	58	59	57
General price level*	149	156	158	158*p*
Composite index of wages*	189	194	196	197*p*
Cost of living*	142	143	143	145*p*

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

Employment and Payrolls

Employment and payrolls in New York State factories registered substantial contra-seasonal gains from the middle of November to the middle of December. This bank's seasonally adjusted index of employment rose 4 per cent to the highest level since May 1930 and the adjusted payroll index advanced about 6½ per cent to the highest point since September 1930. The gain in payrolls was due in part to wage rate increases ranging from 3 to 10 per cent reported by a number of firms, and also to the fact that the mid-December report covered a full week while the mid-November report covered a shorter period in plants that were closed for Armistice Day. Employment gains in the metals and machinery, shoe, fur, and textile industries were offset only in part by reductions in working forces in the clothing and food groups.

The average level of factory employment in New York State for the entire year 1936 was 7 per cent above the average for 1935, and 34 per cent higher than that for 1932, when employment was at the low point of the depression. The 1936 average of payrolls was 11 per cent higher than that of 1935, and 50 per cent above 1933, which was the low year for payrolls. Employment in 1936 averaged 19 per cent under the 1929 level, and payrolls were 32 per cent below, but the year end figures were considerably nearer those of 1929, and if allowance is made for differences in the cost of living the purchasing power of wages received by factory workers at the end of 1936 was approximately as high as in 1929.

For the country as a whole nearly half a million workers found employment between November and December in the manufacturing and nonmanufacturing industries reporting to the Department of Labor and aggregate weekly payrolls rose by more than $14,000,000. Since the preceding December such private employment has given work to 1,340,000 more people and weekly payrolls have risen nearly $53,000,000.

From the middle of November to the middle of December factory employment showed a contra-seasonal gain of 2.3 per cent, the seasonally adjusted index advancing for the tenth consecutive month to the highest level reached in seven years. After allowing for the usual seasonal variations all the major industrial groups with the exception of tobacco products registered employment increases in December. Reflecting in part numerous wage rate increases which benefited nearly 15 per cent of the workers at the reporting firms, factory payrolls rose 4.5 per cent from mid-November to mid-December and the Bureau of Labor Statistics payroll index, unadjusted for seasonal changes, reached the highest point since May 1930. Average factory employment for the calendar year 1936 was 6.8 per cent above the average for 1935 and average payrolls showed an increase of 15.4 per cent.

Half of the 16 groups of nonmanufacturing industries reporting to the Department of Labor showed gains and half showed losses in employment from November to December. Seasonal factors accounted for pronounced employment gains in retail trade and in coal mining, as well as for a sizable decrease in the number of workers in private building construction.

Foreign Trade

During December this country's merchandise exports, valued at $230,000,000, showed a slight contra-seasonal increase over November, and were 3 per cent above a year ago, while imports, valued at $244,000,000, increased considerably more than usually over November and were 31 per cent greater than a year ago.

For the calendar year 1936, exports aggregated $2,453,000,000, or 7 per cent more than in the preceding year, while imports were valued at $2,419,000,000, an increase of 18 per cent. Both exports and imports were larger than in any year since 1930, but the excess of merchandise exports amounting to $34,000,000 was the smallest for any year since 1895.

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Commodity Prices

The recent upward movement in prices of a number of actively traded commodities, which began in the early part of November, continued through the middle of January, at which time these commodities stood at the highest points in a number of years. During the remainder of the month, however, there were substantial reactions in certain of these commodities. The spot quotation for raw silk rose as high as $2.13½ a pound in January, 69 cents above the 1936 low, but later receded to close the month at $2.02½, or only slightly above a month earlier. Net losses, however, were shown in the prices of raw sugar and hogs. Wheat prices moved irregularly lower throughout the month, and the spot price of the Number 1 grade at Minneapolis closed at $1.51⅝ a bushel, as compared with $1.64¼ at the end of December. In the case of corn and steers, however, declines in late January were not sufficient to cancel all of the earlier gains.

Copper and zinc reached the highest prices in several years early in January and held those levels through the month. Scrap steel at Pittsburgh in the last week of the month declined 50 cents a ton from the mid-January high, owing to flood conditions, but scrap steel prices at Chicago and Philadelphia were strong throughout the month, one influence being large export demand.

Department Store Trade

During the first half of January, total sales of the reporting department stores in the Metropolitan area of New York were 5.7 per cent higher than in the corresponding period of 1936, but it appears that somewhat more than the usual seasonal recession occurred from December to January, due at least in part to unseasonable weather conditions.

For the month of December, total sales of the reporting department stores in this district were 11.7 per cent larger than in December 1935, but after allowing for differences in the number of shopping days, the increase in average daily sales was about 7 per cent, a smaller increase than in the previous two months. The Buffalo and Niagara Falls department stores showed larger increases in average daily sales than in November, while the Syracuse and Southern New York State stores recorded smaller advances than in November but larger ones than in the five preceding months. The New York, Rochester, Bridgeport, Capital District, and Central New York State department stores reported the smallest gains in the daily rate of sales in three months, and stores in Northern New Jersey, Northern New York State, the Hudson River Valley District, and Westchester and Stamford showed the least favorable year to year sales comparisons in several months. Sales of the leading apparel stores in this district were 10.8 per cent higher than in December 1935, a smaller advance than in the previous two months.

For the year 1936, total sales of the reporting department stores in this district were 9.7 per cent larger than for 1935, as compared with an increase of only 1.7 per cent from 1934 to 1935. Apparel store sales were nearly 15 per cent larger than in 1935, following an increase of 6.6 per cent between 1934 and 1935.

Stocks of merchandise on hand, at retail valuation, were 9½ per cent higher in December 1936 than in December 1935, the largest increase in four months. Collections of accounts outstanding were higher in December 1936 than in December 1935 in department stores and also in apparel stores.

Locality	Percentage change from a year ago			Per cent of accounts outstanding November 30 collected in December	
	Net sales		Stock on hand end of month		
	Dec.	Jan. to Dec.		1935	1936
New York	+10.7	+ 9.3	+ 8.4	45.7	45.2
Buffalo	+17.9	+13.4	+16.8	50.3	50.6
Rochester	+14.7	+10.1	+13.9	46.2	50.7
Syracuse	+12.9	+ 8.0	+ 9.1	38.0	42.6
Northern New Jersey	+15.0	+12.1	+16.8	41.3	43.6
Bridgeport	+11.2	+ 8.7	+ 6.6	41.4	45.1
Elsewhere	+ 9.1	+ 7.3	— 3.4	33.8	39.4
Northern New York State	— 0.5	+ 1.6	......	....	....
Southern New York State	+11.3	+ 3.6	......	....	....
Central New York State	+13.2	......	......	....	....
Hudson River Valley District	+10.1	+10.4	......	....	....
Capital District	+ 9.8	+ 7.7	......	....	....
Westchester and Stamford	— 0.8	+ 5.1	......	....	....
Niagara Falls	+14.4	......	......	....	....
All department stores	+11.7	+ 9.7	+ 9.5	44.2	45.2
Apparel stores	+10.8	+14.9	+ 1.4	46.3	46.7

Wholesale Trade

Total December sales of the reporting wholesale firms averaged 18.9 per cent higher than in December 1935, the largest increase since last July. Hardware concerns recorded the most substantial advance in sales since January 1934, stationery and paper firms the largest increases since the spring of 1934, and the grocery concerns the largest gain since November 1934. The shoe, cotton goods, and diamond firms reported the most favorable increases in sales in six or seven months. On the other hand, sales of the jewelry concerns and yardage sales of silk goods, reported by the National Federation of Textiles, showed smaller advances than in the previous few months.

For the year 1936, total sales of the reporting wholesale firms in this district averaged 10.1 per cent higher than for the year 1935, compared with an increase of 5.5 per cent from 1934 to 1935, and an advance of 14.8 per cent from 1933 to 1934.

Commodity	Percentage change December 1936 compared with December 1935		Per cent of accounts outstanding November 30 collected in December		Percentage change net sales
	Net sales	Stock end of month	1935	1936	Year 1936 compared with Year 1935
Groceries	+19.6	+ 7.7	88.1	95.0	+ 7.3
Men's clothing	+ 9.4	......	53.1	52.6	+12.3
Cotton goods	+17.1	......	45.3	49.4	+12.3
Rayon and silk goods	+ 5.2*	......	62.4	68.3	+ 5.2*
Shoes	+18.9	......	38.0	37.2	— 2.8
Hardware	+23.9	+19.4	49.4	51.6	+12.6
Stationery	+25.9	......	58.0	72.2	+ 8.6
Paper	+32.9	......	55.4	58.7	+ 7.4
Diamonds	+32.2	—25.5	} 27.5	} 25.1	+25.1
Jewelry	+36.3	+147.1			+44.1
Weighted average	+18.9	......	60.8	64.1	+10.1

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

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Business Conditions in the United States

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

THE Board's index of industrial production showed a sharp advance in December after allowance is made for the usual seasonal changes. There was a marked expansion in employment and payrolls and retail trade continued at high levels.

Production and Employment

Actual volume of industrial production showed little change from November to December, at a time when a sharp seasonal decline is usual, and the Board's adjusted index advanced from 114 to 121 per cent of the 1923-1925 average. There was a further rise in activity at textile mills to the highest level on record and output of other nondurable manufactures was maintained. Declines in production of steel and lumber were smaller in December than are usual in that month. At automobile factories there was a marked increase in output. In the first three weeks of January activity at steel mills increased somewhat, but there was a decline in assemblies of automobiles as a result of shutdowns occasioned by strikes. Coal production declined seasonally from November to December, while output of crude petroleum increased, contrary to seasonal tendency.

Value of construction contracts awarded, according to figures of the F. W. Dodge Corporation, showed a seasonal decrease in December.

Factory employment expanded further between the middle of November and the middle of December, contrary to the usual seasonal movement. Increases were general among the durable goods industries, with the largest advances at plants producing automobiles and machinery. In the nondurable goods industries there were marked increases in the number employed at textile mills and at shoe factories. Reflecting principally the higher level of employment and advances in wage rates, factory payrolls increased sharply in December, particularly at steel mills and in the textile industries. In retail trade, employment rose more than seasonally and in most other nonagricultural pursuits there were increases, when allowance is made for seasonal changes.

Distribution

Retail sales in December increased seasonally at department stores and by more than the usual seasonal amount at variety stores and mail order houses serving rural areas.

Freight car loadings showed a smaller decrease than is usual in December, and the Board's seasonally adjusted index advanced further.

Commodity Prices

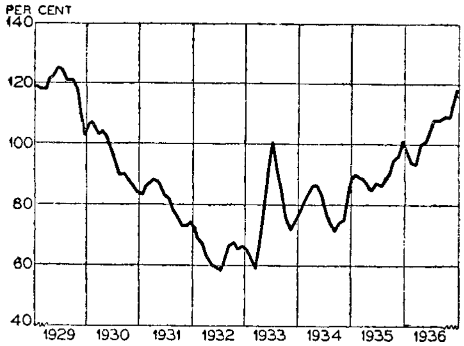
Wholesale prices, for both industrial and agricultural commodities, continued to advance in the second half of December and the first half of January. There were marked increases in prices of industrial raw materials, particularly nonferrous metals, lumber, hides, and wool, and prices of a number of finished goods, such as steel products, paper, and textiles also advanced. Since the middle of January there has been a decline in prices of commodities traded in on the organized exchanges.

Bank Credit

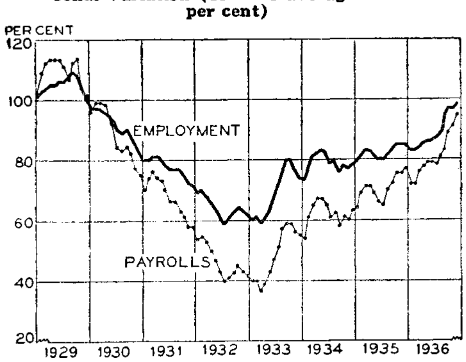
Loans and investments of reporting member banks in leading cities declined in the first three weeks of January, as a result of reductions in commercial loans and in loans to brokers. The decrease in loans reflected in part the retirement of notes issued by the Commodity Credit Corporation last July and in part repayment of other loans, which had increased sharply in preceding weeks. Holdings of Government obligations declined further at New York City banks but increased at banks in other leading cities. Demand deposits decreased at the turn of the year, but thereafter increased somewhat, reflecting chiefly the return of currency from holiday use.

The rate of 90 day bankers acceptances was raised 1/16 of 1 per cent on January 13 and now stands at ¼ of 1 per cent. Market discount rates on Treasury bills have also increased, with bills offered in the week ended January 16 selling at a discount of over ⅓ of 1 per cent, as compared with a rate of about 1/10 of 1 per cent early in December.

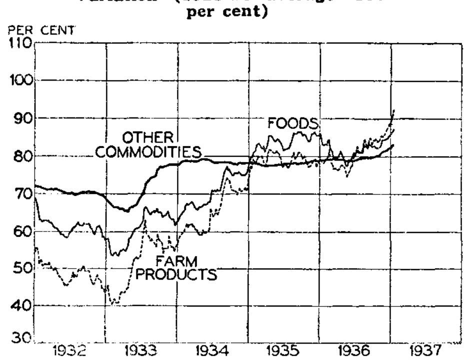
Excess reserves of member banks increased from $1,880,000,000 to $2,130,000,000 in the four weeks ended January 20, reflecting largely the post-holiday return flow of currency from circulation.



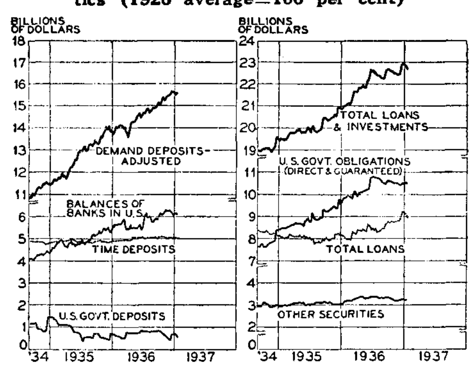
Index Number of Production of Manufactures and Minerals Combined, Adjusted for Seasonal Variation (1923-25 average=100 per cent)



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



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



Wednesday Figures for Reporting Member Banks (Latest figures are for January 20)

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