MONTHLY REVIEW
of Credit and Business Conditions
Second Federal Reserve District

Federal Reserve Bank, New York — *April 1, 1937*

Money Market in March

During the past month there has been a further moderate rise in short term money rates, but the change in interest rates that attracted considerably more attention was the further rise in yields on long term high grade bonds, which has been fully as great as the average advance in short term money rates during the past two months. Ordinarily long term interest rates are much more sluggish than short term rates, and in general move within a much narrower range.

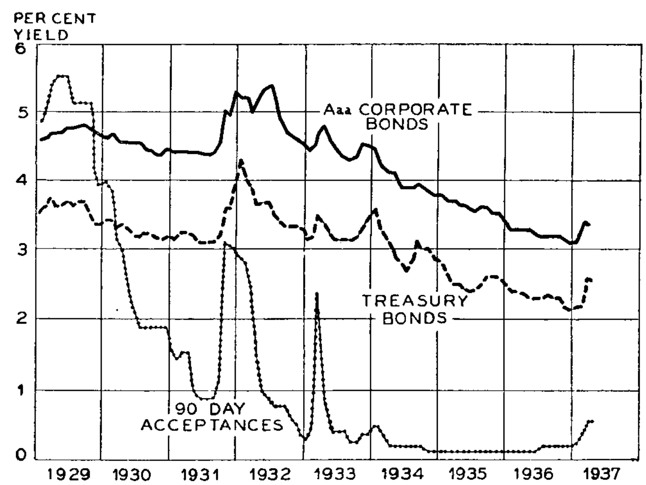
As the accompanying diagram indicates, the increase in yields on United States Government bonds and on the highest grade corporation bonds during the past two months shows some similarity to other movements in bond yields that have occurred during the past few years.

The moderate rise in short term money rates that has occurred during the past few months probably reflects more accurately than bond yields the extent of the change in the money market situation. There is still a large volume of excess reserves in member banks, but the distribution of the remaining excess is somewhat uneven and has led to some shifting of earning assets between banks, and to some extent from banks to other investors. Partly in reflection of this situation, and partly in response to changes in other money rates, bill dealers raised their buying and selling rates on bankers acceptances twice during March, so that the current rates are now about the same as those prevailing early in 1934. This rise in open market bill rates has placed the rates for unindorsed bills slightly above the rates at which this bank will purchase indorsed bills, so that it is now possible for banks or bill dealers in need of funds to obtain such funds without penalty by selling bills to the Reserve Banks. This relationship of open market and Reserve Bank bill rates, therefore, tends to have a stabilizing effect on the money market. Yields obtainable on Treasury bills also rose during March to about the levels prevailing at the beginning of 1934, and open market commercial paper rates advanced slightly during the month. The average rate charged by the large New York City banks on direct loans to customers, however, remained unchanged.

The recent rise in yields on long term bonds is shown in perspective in the diagram. Under the pressure of an extraordinarily large volume of funds seeking investment and aided by business recovery, bond yields had previously declined with only comparatively minor interruptions for about five years, although during the last three years short term rates remained practically unchanged. Even after the rise of the past two months, long term interest rates are still the lowest in many years, with the exception of the period since the autumn of 1935 or the early months of 1936. Short term interest rates also are still considerably lower than at any time in the 30 years preceding the depression.

	Mar. 31, 1936	Feb. 27, 1937	Mar. 30, 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	1
Bills—90 day unindorsed	⅛	5/16	9/16
Customers' rates on commercial loans (Average rate of leading banks at middle of month)	1.71	1.71	1.71
Treasury securities:			
Maturing September (yield)	No yield	No yield	0.08
Maturing February 1938 (yield)	....	0.21	0.52
Average yield on Treasury notes (1-5 years)	0.68	1.00	†1.29
Average yield on Treasury bonds (more than 5 years to earliest call date)	2.38	2.21	2.56
Average rate on latest Treasury bill sales 273 day issue	0.13	0.39	0.64
Federal Reserve Bank of New York rediscount rate	1½	1½	1½
Federal Reserve Bank of New York buying rate for 90 day indorsed bills	½	½	½

* Nominal † Change of +0.08 from previous yields due to the dropping of the 3 per cent Treasury note issue of March 15, 1938 from the average as it matures within one year.



Offering Rate on Ninety Day Bankers Acceptances and Average Yields on Treasury and High Grade Corporation Bonds (Moody's Investors Service data for Aaa corporate bonds and Federal Reserve Bank of New York average yield on Treasury bonds over 5 years' term to call date or maturity)

Excess Reserves

The volume of excess reserves held by member banks has fluctuated widely during the past month, especially in the New York City banks. At the end of February, despite substantial withdrawals of funds by out of town banks, the principal New York City banks had about $800,000,000 of excess reserves. The March 1 increase in reserve requirements, together with some further outflow of funds to other parts of the country, reduced the amount to about $435,000,000, and a further reduction to about $350,000,000 occurred in the next few days, largely as a result of the usual first of the month settlements, including the collection of interest and dividend checks drawn on the New York banks. In the remainder of the month excess reserves in New York fluctuated between about $335,000,000 and $470,000,000, reflecting Government collections and disbursements and movements of funds between New York and other parts of the country. In the latter part of March, following some further reduction during the course of the month, the total balances of out of town banks in the principal New York City member banks were below $1,700,000,000, a reduction of approximately $200,000,000 from a month previous, and of about $475,000,000 from the high point of last November.

For the country as a whole, excess reserves of member banks were reduced from about $2,100,000,000 near the end of February, to a little over $1,300,000,000 early in March, but a moderate increase followed, and on March 17 the amount rose to approximately $1,450,000,000, due to a temporary excess of Treasury disbursements over receipts. In the following week excess reserves declined again to $1,270,000,000, largely as a result of Treasury operations including further income tax collections and a withdrawal of funds from Government depositaries; Government deposits in the Reserve Banks, which had been reduced on March 17 to about $87,000,000, rose on March 24 to $279,000,000. Toward the end of the month excess reserves were equal to about 15 to 20 per cent of required reserves in the large New York City member banks, and averaged about 35 per cent for all other member banks.

Member Bank Credit

Holdings of United States Government securities by the weekly reporting New York City member banks declined $240,000,000 further in the four weeks ended March 24, reflecting largely the redemption of Treasury bills maturing on March 16 to 18, which had been held by the New York City banks in large volume. The Government security holdings of these banks have shown a generally diminishing volume since the beginning of last July and are now about $800,000,000, or 20 per cent, below the high point, and $250,000,000 below the volume of a year ago. This reduction may be attributed partly to the reduced offerings of additional Government securities and the increased demand for such securities on the part of other investing institutions since the middle of last year, but is probably attributable in part to the substantial reduction in the excess reserves of the New York banks, which has resulted partly from increased reserve requirements and partly from the heavy withdrawals of out of town bank funds referred to above.

The loans of these banks, however, have shown a renewed increase in recent weeks. Security loans increased $76,000,000 in the four weeks ended March 24, probably reflecting, at least in part, borrowings by Government security dealers in connection with the March Treasury financing. All other loans, including chiefly borrowing by business organizations, increased $91,000,000 to a level slightly above the high point of last December and $400,000,000 above a year ago.

Bills and Commercial Paper

Bill dealers advanced their quotations for bankers acceptances on March 18 and again on March 23. The increases in rates for the month were 3/16 per cent in the case of 30 day bills, about ¼ per cent for 3, 4, 5, and 6 month bills, and 5/16 per cent for 60 day bills. The current offering rate of 9/16 per cent for 90 day unindorsed acceptances compares with the low of ⅛ per cent from October 1934 to July 1936, and with a buying rate at the Federal Reserve Bank of New York of ½ per cent for 90 day indorsed bills, a rate which has been maintained without change since October 1933. After the second increase in market rates, a small amount of bills was sold by an acceptance dealer to the New York Reserve Bank. The higher rates for bills accelerated the investment demand for acceptances and retarded the movement of bills into the market.

The volume of bills outstanding increased $14,000,000 further during February to $401,000,000, the highest level since April 1935. The February increase was the sixth consecutive monthly increase, and the first increase over January in a decade. A rise in the amount of import bills outstanding to the highest figure since December 1931 accounted for the contraseasonal advance in total bills outstanding.

(Millions of dollars)

Type of acceptance	Feb. 1936	Jan. 1937	Feb. 1937
Import	114	141	158
Export	94	83	85
Domestic shipment	9	16	11
Domestic warehouse credit	72	68	68
Dollar exchange	2	2	2
Based on goods stored in or shipped between foreign countries	86	77	77
Total	377	387	401

A gradual upward tendency in commercial paper rates continued in evidence during March, and by the last week of the month the rate for average grade prime four to six month commercial paper had become established at 1 per cent, as compared with ¾ per cent previously. Dealers' acquisitions of new paper continued to increase during March and again represented borrowings by a diversified list of business enterprises.

Except for a short period immediately before the rate rise, bank investment demand for business notes was such that the new paper currently acquired by dealers for resale moved quickly into investment portfolios.

At the end of February commercial paper houses reported a total of approximately $268,000,000 of paper outstanding, an increase of about 10 per cent over January and of 52 per cent over the total a year ago. The increase between January and February, which has been exceeded by only one other February increase since the inception of the reports, followed advances of approximately 13 per cent each in December and January, and raised the amount of paper outstanding to the highest level since August 1931.

Government Securities

In March, for the first time since the summer of 1935, a substantial recession in Goverment bond prices occurred. Ever since the high point was reached in the first part of December, Treasury bond prices had been gradually receding, but the extent of the decline through February—about ¾ of a point—was moderate as compared with the decline that occurred in the first three weeks of March, which averaged 3¾ points. The total drop from the December high to the March low thus amounted to approximately 4½ points, and the average yield on Treasury bonds of more than five years' term to call date or maturity advanced from 2.10 per cent to 2.58 per cent.

Yields on United States Treasury notes rose somewhat further during March. The extent of the March rise was somewhat less than in Treasury bond yields, following a more rapid rise in note yields between December and February. Toward the end of March, the average yield on Treasury notes of one to five year maturity stood at 1.29 per cent as compared with the November 1936 low of 0.61 per cent. There was also a continued rise in the rates at which weekly issues of Treasury bills were awarded. In the case of sales of 273 day bills the rate on the issue dated March 24 was 0.71 per cent, which compares with 0.39 per cent on the last issue of February, and a low of 0.08 per cent last November. On the 273 day issue dated March 31 the average rate was slightly lower at 0.64 per cent.

Treasury financing operations on the March quarterly tax date were limited to the issuance of $484,000,000 of 2½ per cent Treasury bonds of 1949-53 (additional bonds of the issue originally sold last December) in exchange for 3 per cent Treasury notes maturing April 15, 1937. About 96½ per cent of the April 15 notes outstanding were exchanged, substantially the same proportion as on other recent exchange offerings, and consequently only $19,000,000 of April 15 notes remain to be redeemed on the maturity date. No new cash was raised by Treasury security financing on March 15, and Treasury bill financing in March resulted in a temporary net reduction of $50,000,000 in the volume of outstanding bills. On March 16, 17, and 18, a total of $300,000,000 of Treasury bills matured and were retired out of income tax receipts by the Treasury, but on March 3 the Treasury began to issue each week $50,000,000 more Treasury bills than matured, thereby offsetting $250,000,000 of the bill maturities on March 16-18. Assuming the continuance of the issue of an additional $50,000,000 of bills in the first week of April, a total of $300,000,000 of Treasury bill maturities will again have been arranged to fall in the next tax period—just following June 15—to offset income tax collections.

Security Markets

Coincident with the decline in Government bond prices, quotations for corporate and municipal fixed interest securities receded considerably during the first three weeks of March. Price averages including various grades of domestic corporation bonds declined more than 2 points during this period, following earlier recessions of 1 to 2 points from the January highs which marked the highest levels for many years. Both the best grade and lower grade bonds were subject to price weakness in March, and both classes have declined considerably from their January highs. Expressed on a yield basis, Aaa corporation bonds declined from a low yield of 3.07 per cent in January to a yield of 3.39 per cent on March 23, and Baa bonds receded from a 4.46 per cent basis to a 4.81 per cent yield, according to data computed by Moody's Investors Service. The higher yields reached are about the same as prevailed in the early part of 1936. Meanwhile, the yield on high grade municipal bonds, as compiled by Standard Statistics Company, rose further in the first three weeks of March to 2.79 per cent, as compared with about 2.62 per cent at the end of February, and a low of 2.29 per cent in the first week of January. The level reached in March in this case also was the highest since the opening months of 1936.

Stock prices continued to rise during the first ten days of March, in contrast to the decline in bond prices, and as a result the general level of share prices reached a new high since October 1930. During this first part of March, both industrial and railroad shares advanced, while the public utilities showed relatively little change. Between the 11th and 22nd of March, however, there was a sizable recession in stock prices, and despite some subsequent upturn, coincident with the recovery in bond prices, the general average of stock prices toward the close of the month was about 2 per cent lower than at the beginning of the month; the railroad stocks were the only major group to show a net advance for the month.

New Financing

A considerable shrinkage in the volume of new security flotations occurred during March accompanying the development of uncertain market conditions. It was reported that the offering of a number of issues had been postponed, or registration statements with the Securities and Exchange Commission withdrawn, because of market conditions. The total of new bond issues reported to be so held up was about $160,000,000, so that a "backlog" of new issues was built up for offering when conditions in the bond market are more favorable.

The total of new issues offered in March amounted to approximately $315,000,000 excluding $69,000,000 of Conversion Office for German Foreign Debt bonds issued in exchange for past due coupons on certain German securities. This compares with more than $600,000,000 of issues in February and $775,000,000 in March 1936. The most important issue of the month, both because of its size and the particular time that it reached the offering stage, was the $130,000,000 Philadelphia Electric Company 3½ per cent 30 year refunding bond issue. This issue was offered on March 11 at a price of 102½, giving a yield to maturity of 3.37 per cent. Prices of outstanding bonds had declined in the previous part of March and declined further after March 11, so that the distribution of this large issue tended to be somewhat slow, but nevertheless within two weeks after the original offering it appears that the issue was fully absorbed, although apparently in part at some concession from the price at which it was offered by the underwriting syndicate.

Also included in the March total of new financing was an issue of $15,000,000 State of New York 3 per cent grade crossing elimination bonds, maturing in from 1 to 50 years, which were awarded by the State at an interest cost of 2.96 per cent and immediately reoffered in the market at prices to yield from 1 to 3 per cent, according to maturity. The 10 year maturity in the public offering of bonds was priced to yield 2.40 per cent, which compares with a 1.50 per cent yield on 10 year New York State bonds included in a sale of last September. Distribution of the March issue of bonds was reported to have progressed rapidly.

Balance of Payments of the United States

The net import of capital into the United States in 1936 amounted to $1,141,000,000 as compared with $1,536,000,000 in 1935, according to preliminary estimates of the balance of payments of the United States recently issued by the Department of Commerce. Accompanying this inflow of capital, the recorded movement of gold into the country amounted to $1,030,000,000, after adjustment for reported earmarking operations, which may be compared with a gold inflow of $1,739,000,000 in 1935.

The character of the capital import movement to the United States changed markedly in 1936. Whereas in 1935 transactions in short term banking funds had accounted for $970,000,000, or 63 per cent of the total, in 1936 American banks' and bankers' net liabilities to foreigners rose by $404,000,000, or 35 per cent of the total capital inflow. The inflow of capital through security operations was much heavier in 1936 than in the previous year, amounting to $792,000,000, or 69 per cent of the total reported inward movement of capital, as compared with $462,000,000, or 30 per cent, in 1935. Other reported capital transactions, consisting of transactions reported by exporters, importers, industrial and commercial concerns, and by Government agencies, resulted in a small outflow of funds in 1936, reversing the 1935 inflow.

A marked change took place in the balance of payments on current account between 1936 and 1935, a net deficit of $132,000,000 in 1936 replacing a net surplus of $208,000,000 in 1935. Merchandise exports increased in value by nearly 8 per cent, while imports increased by approximately 18 per cent, reducing the export surplus in merchandise trade from $236,000,000 to $34,000,000. The increases in sales of American products abroad were recorded entirely among semimanufactured and manufactured goods, sales of raw materials and foods declining slightly from $742,000,000 in 1935 to $726,000,000 in 1936. The rise in the value of imports, however, was more evenly spread among the various classes of commodities entering that trade, raw materials rising 26 per cent, semimanufactured goods 20 per cent, manufactured foodstuffs 20 per cent, manufactured goods 15 per cent, and crude foodstuffs 8 per cent.

Recovery in the United States also resulted in a substantial increase in the expenditures of American tourists abroad, and in a small rise in remittances of immigrants to relatives in foreign countries. No change was recorded in net interest and dividend receipts from abroad, the rise in profits on American capital abroad being offset by higher rates of return paid to foreign owners of increasing amounts of American securities. Payments for net silver imports fell to $180,000,000 in 1936 from $336,000,000 in 1935, and when these payments are added to the deficit on current account, the aggregate net payments to be made to foreign countries for trade in commodities and services other than gold amounted in 1936 to $312,000,000 as opposed to $128,000,000 in 1935.

The estimated balance of payments is shown in the following table for 1935 and 1936.

Net figures in millions of dollars
(+ indicates amounts payable by foreigners to U. S., and — indicates amounts payable by U. S. to foreigners on specified transactions)

	1935	1936
I. Current Account		
Merchandise trade	+ 236	+ 34
Tourist expenditures	— 292	— 373
Immigrant remittances and charitable contributions	— 115	— 138
Income from foreign investments	+ 375	+ 375
Other current items	+ 4	— 30
Balance on current account	+ 208	— 132
II. Capital Account		
Short term banking funds	+ 970	+ 404
Security transactions	+ 462	+ 792
Currency shipments and receipts	— 1	+ 20
Other reported capital movements	+ 105	— 75
Balance on capital account	+1,536	+1,141
III. Silver	— 336	— 180
IV. Gold shipments and earmarkings	—1,739	—1,030
V. Errors and omissions	+ 331	+ 201

Gold Movement

The inflow of gold into the United States continued during March in somewhat larger volume than in the previous month. Imports affecting the monetary gold stock totaled $101,100,000, of which $76,600,000 from England, $5,400,000 from Egypt, $4,200,000 from Canada, $3,700,000 from India, $1,200,000 from Bolivia,

$1,100,000 from Belgium, and $700,000 from Australia were received at New York, and $5,700,000 from Japan, $2,100,000 from Australia, and $300,000 from China arrived on the West Coast. Part of the gold received from England proved to be of Russian origin.

These imports, supplemented by receipts from other sources, including domestic newly mined and scrap gold, and by the release of approximately $200,000 from foreign account earmarkings, resulted in an increase of about $140,000,000 in the monetary gold stock of this country during the month. The Treasury's daily statement of March 27 shows $318,400,000 of "inactive gold" held in the general fund.

Business Profits

Accompanying continued recovery in the volume of production and trade and some advance in commodity prices, profits of 727 industrial and mercantile companies in 1936 rose 50 per cent over the 1935 level, or virtually the same percentage gain as occurred between 1934 and 1935. The net profits of these companies rose 26 per cent above the 1930 total, but remained 26 per cent below the 1929 figure. The number of individual companies reporting net losses in 1936 amounted to 7.6 per cent of the total tabulated, as against 15.7 per cent of the total in 1935.

All except 4 of the 37 groups of industrial and mercantile companies shown in the accompanying table had larger profits in 1936 than in the previous year, and in several instances the percentage increases were very large. Prominent among the groups reporting increases were the aviation, heating and plumbing, railroad equipment, chain restaurant, tire and rubber, shipping, and steel companies.

The Class I railroads, following deficits sustained in each year from 1932 to 1935, earned a moderate amount in excess of interest and other fixed charges in 1936. This amount, however, was only about one-third as large as in 1930 and one-fifth of the 1929 net income. Net income of 62 public utility companies other than telephone companies rose 10 per cent in 1936, but remained 28 per cent below the 1930 total and 30 per cent less than in 1929.

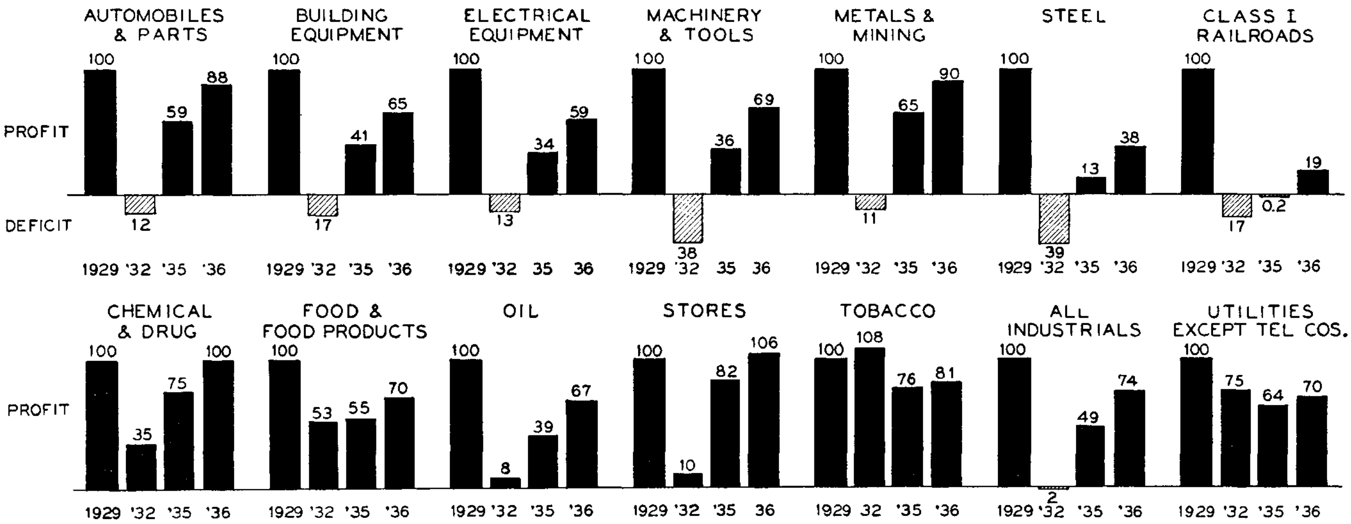
(Net profits in millions of dollars)

Corporation Group	No. of Cos.	1929	1930	1932	1935	1936
Agricultural implements	4	42.4	24.8	—14.8	18.1	30.5
Automobiles	13	329.8	173.3	—33.5	200.3	314.2
Automobile parts and accessories (excl. tires)	43	94.2	36.1	—18.6	48.8	60.0
Aviation	10	1.3	— 9.0	— 2.3	1.5	4.1
Bakery products	10	53.8	45.9	28.7	20.7	26.9
Beverages	6	19.6	19.3	12.8	25.2	30.9
Building equipment and supplies	36	69.2	36.3	—18.7	24.8	45.9
Chemicals and drugs	32	206.4	159.1	72.9	155.3	205.5
Clothing and apparel	9	11.2	5.9	— 4.8	4.1	5.9
Coal and coke	12	10.4	5.0	— 6.5	3.1	2.8
Confectionery	11	27.2	25.8	14.3	16.9	17.3
Containers—metal and glass	7	42.7	40.2	22.0	42.6	42.6
Copper and copper products	10	37.1	2.8	— 8.8	14.0	27.5
Electrical equipment	31	167.1	95.9	—21.5	56.5	99.1
Food products—misc.	36	163.6	148.8	89.4	84.2	110.8
Heating and plumbing	12	41.2	15.3	—17.0	10.1	22.5
Household equipment and supplies	30	79.9	43.1	— 3.3	37.9	54.9
Leather and shoes	11	— 0.1	— 2.4	— 3.9	7.2	7.3
Machinery and tools	49	67.9	34.5	—25.8	24.6	47.2
Meat packing	6	2.7	1.0	— 0.3	2.1	2.1
Metals and mining (excl. copper, coal and coke)	25	108.2	57.2	— 0.9	83.1	108.1
Motion pictures	5	13.1	11.7	—19.2	6.0	9.7
Office equipment	11	45.2	29.0	0.2	23.1	29.7
Oil and petroleum	36	157.3	68.4	11.8	61.7	105.7
Paper and paper products	18	13.0	6.2	— 3.6	8.0	9.3
Printing and publishing	16	38.9	32.4	7.1	14.2	16.7
Railroad equipment	17	58.5	46.8	—15.8	— 1.8	19.7
Realty	5	9.9	7.4	— 0.9	— 0.2	— 0.6
Restaurants—chain	6	4.9	4.2	— 0.2	0.5	1.2
Rubber and tires	6	25.3	—16.3	—18.1	10.8	29.6
Shipping	6	10.1	4.7	2.0	1.2	5.1
Silk and hosiery	16	10.7	0.2	— 2.8	4.4	4.5
Steel	32	378.7	178.7	—146.2	49.1	143.5
Stores—mdse.	33	144.5	87.4	14.1	118.2	152.4
Textiles—misc	21	6.9	—11.0	—14.6	8.8	17.9
Tobacco	20	78.9	87.8	84.8	59.6	63.4
Miscellaneous	76	109.1	67.4	— 6.0	66.5	96.2
Total 37 groups	727	2,680.8	1,563.9	— 48.0	1,311.2	1,970.1
Class I Railroads, net income	144	896.8	523.9	—150.6	— 1.4	169.9
Public utilities, except telephone companies, net income	62	317.8	307.0	237.3	202.4	221.5

— Deficit

Foreign Exchanges

Although the downward revaluation of the French franc at the end of September 1936 was followed for a time by a moderate movement of funds to Paris from foreign financial centers, this return movement apparently was halted about the middle of October, and during succeeding months the French franc was under persist-



Annual Net Profits or Deficits of 727 Industrial and Mercantile Concerns, Class I Railroads, and 62 Public Utility Companies Other Than Telephone Companies During 1929, 1932, 1935, and 1936 (1929 = 100 per cent)

ent pressure, the stability of exchange rates being maintained only through supporting operations undertaken by the French exchange authorities. In this respect developments in France were in contrast to the experience of both Holland and Switzerland, where substantial return movements of capital extending over a period of several months followed a lowering of the gold values of their currencies.

The pressure against the franc culminated on March 5, when it was reported that the proceeds of the £40,000,000 credit extended to the French railways by the London market at the end of January had been largely utilized in supporting French exchange. On that day the franc, which had closed at \$0.0464⅝ on March 4, dropped to a low of \$0.0452. Following a meeting of the French cabinet, a new program designed to end the critical fiscal and exchange situations was announced. This program included provision for (1) the establishment of facilities by which French holders of gold could dispose of their holdings at the world price and without disclosing their identity, (2) the flotation in the Paris market of a national defense loan carrying an exchange guarantee, stipulated in dollars and sterling and payable at prevailing rates in either French or Swiss francs, (3) curtailment of certain projected Government expenditures, and (4) the appointment of a committee of experts to administer the stabilization fund.

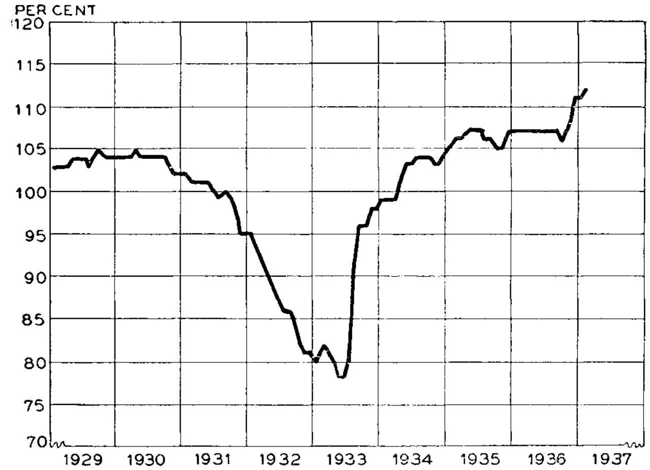
The announcement of this program and the French Government's success in marketing the new defense loan brought about a reversal of the direction of the movement of capital. In response to the return movement of funds, the franc-dollar rate rose gradually from its low of \$0.0452 on March 5 to about \$0.0459½, where it seems to have been held by the French authorities through purchases of sterling and dollars against sales of francs.

Apart from a slight reaction during the period of most severe pressure against French exchange, the pound-dollar rate was generally steady during March in the neighborhood of \$4.88½. The guilder also weakened moderately during the early part of March but recovered thereafter. On the other hand, both the belga and the Swiss franc showed a firm tendency during the first few days of the month, but both currencies subsequently reacted moderately and showed little net change for March as a whole.

Employment and Payrolls

In accordance with the customary seasonal tendency employment and payrolls in representative New York State factories advanced from the middle of January to the middle of February, although the rate of increase in the case of employment was slightly less than in some previous years. The gain in the number of workers was general, nearly all of the major industrial groups sharing in the advance. In anticipation of an early Easter trade, clothing manufacturers employed many additional workers, and there were also pronounced employment gains in the textile and chemical industries.

For the United States as a whole, the employment of approximately 215,000 additional workers was reported in the manufacturing and nonmanufacturing industries surveyed by the Department of Labor, representing a recovery of about 30 per cent of the reduction in the preceding month. The February increase was concentrated almost entirely in the manufacturing industries and the seasonally adjusted index of factory employment computed by the Board of Governors of the Federal Reserve System advanced approximately 1 per cent to the highest level since December 1929.



Average Hourly Earnings in United States Factories (Based on National Industrial Conference Board and Bureau of Labor Statistics data; 1926 = 100 per cent)

An important feature of the employment situation in recent months has been the more rapid increase in payrolls than in employment, owing to the combined effect of increased working hours and of wage rate increases by many manufacturers. The accompanying diagram shows the movement since 1929 of an index of hourly wage rates in manufacturing industries. Wage rates were slow in responding to the decline in industrial production and employment following 1929, and it was not until the final quarter of 1931 that the downward movement became pronounced. Average wage rates fell 16 per cent from October 1931 to October 1932 and subsequently showed a further gradual decline. This tendency extended through the second quarter of 1933, when the volume of production and employment was rising rapidly, and then, under the impetus of the N.R.A., wage rates moved upward, sharply at first and then more moderately. The rising tendency extended into 1935, and after reaching a point 3 per cent above the 1929 average the index followed a level course through the first ten months of 1936. Since October, however, there have been widespread wage advances and the index has moved up five points more and is now 8 per cent above the 1929 average. Since February, the last month shown on the diagram, there have been important additional increases.

Production

During March the general level of industrial activity continued the upward tendency which was resumed during February, although output was restricted in some lines by labor difficulties. Steel production extended the rise that has prevailed with only minor interruptions since last July; at the end of the month steel mills were operating at about 90 per cent of capacity, and actual output was close to the highest point previously recorded, in the late spring of 1929. Unfilled orders were reported as unusually large, owing to the efforts of consumers to seek protection against future shortages. Cotton mills also maintained a high rate of activity during March. In the early part of the month it was reported that incoming orders were considerably in excess of production, and although new business later decreased, mills still carried substantial backlogs of unfilled orders on their books. Bituminous coal mining increased further in the first three weeks of March, and during the same period electric power output, instead of declining as in most other years, maintained the February rate. On the other hand, automobile assemblies, which generally rise at this time of the year, were restricted by strikes taking effect on March 8, and labor difficulties handicapped production in some other industrial fields as well.

In February the general level of industrial activity increased more than at this time in most other years, with the result that the index of industrial production of the Board of Governors of the Federal Reserve System, adjusted for usual seasonal variations, rose two points to 116 per cent of the 1923-25 average. The high point of the index for the recovery period, attained in December, was 121. Automobile assemblies gained following settlement of the General Motors strike on February 11, bituminous coal output expanded, and the rate of steel production was higher, although in the absence of a preceding year end slackening the increase in steel output was not as large as in many past years. Average daily consumption of cotton by textile mills, already at the highest level on record, advanced seasonally in February.

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

	1936		1937	
	Feb.	Dec.	Jan.	Feb.
Metals				
Pig iron	61	110	112	103
Steel	65	119	112	101
Lead	51	65	62	56
Zinc	66	85	71	71
Automobiles				
Passenger cars	72	110	95	102*p*
Motor trucks	107	116	119	111*p*
Fuels				
Bituminous coal	93	99*r*	87	98*p*
Anthracite coal	115	89	73	59*p*
Petroleum, crude	85	91	94	94*p*
Petroleum products*r*	85	91	90	
Electric power	88	96	94	94*p*
Textiles and Leather Products				
Cotton consumption	86	121	112	112
Wool consumption	116	138	124	135*p*
Silk mill activity	53	66	68	66*p*
Rayon deliveries*	106	109	117	108
Shoes	109*r*	140	141	128*p*
Foods and Tobacco Products				
Meat packing	76	102	87	82
Wheat flour	92	83	81	84
Tobacco products	88	107	93	98
Miscellaneous				
Cement	40	81	74	69
Tires	67	143		
Newsprint paper	79	82	83	83*p*
Machine tools	105	245	200	158

p Preliminary   *r* Revised   * For quarter ended

Indexes of Business Activity

During the first half of March department store sales in the Metropolitan area of New York were well above the corresponding period a year ago, but showed slightly less than the usual increase over the February level after allowance is made for the concentration of pre-Easter buying in March this year, and other seasonal factors. According to the Department of Commerce survey of 36 principal cities, retail trade throughout the country continued to expand during the first part of the month, as a result of Easter buying, and wholesale trade appeared to have been active. For the first three weeks of March shipments of merchandise and miscellaneous freight over the railroads showed somewhat more than the usual expansion, and car loadings of bulk commodities were little changed, although there is ordinarily a decline at this time of year.

In February, as the accompanying table indicates, most indicators of general business activity and the distribution of goods showed some recession.

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

	1936		1937	
	Feb.	Dec.	Jan.	Feb.
Primary Distribution				
Car loadings, merchandise and misc.	66	84	78*r*	80
Car loadings, other	81	85	78	79
Exports*r*	64	67	69	
Imports*r*	89	102	104	
Distribution to Consumer				
Department store sales, U. S.	80	90	89	88
Department store sales, 2nd Dist.	80	90	89	86
Chain grocery sales	73	69	68	66
Other chain store sales	89	98	96	92
Mail order house sales	77	100	88	85
Advertising	69	85	77	79
New passenger car registrations	79	124	120*p*	93*p*
Gasoline consumption*r*	82	103	97	
General Business Activity				
Bank debits, outside New York City	63	74	68*p*	68*p*
Bank debits, New York City	42	50	42	42
Velocity of demand deposits, outside New York City	69	72	71	69
Velocity of demand deposits, New York City	42	48	44	44
New life insurance sales	68	67	75*p*	73*p*
Factory employment, United States	88	100	100	101*p*
New corporations formed in N. Y. State*r*	68	74	75	72
Building contracts, residential	21	34	51	39
Building contracts, other	61	59	76	65
General price level*	151	159	161	161*p*
Composite index of wages*	190	198	199	200*p*
Cost of living*	142	144	145	145*p*

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

Building

Total building and engineering contracts awarded in the New York and Northern New Jersey area declined approximately 7 per cent in February, but on an average daily basis the rate at which contracts were placed was slightly higher than in January, although not to the extent that is usually expected at this time of the year. Residential building showed a decline of nearly 30 per cent in the average daily rate of contract awards, as compared with January, when the amount was greatly increased by contracts for publicly financed housing projects. In contrast to the decline in residential building, nonresidential work registered a substantial contra-seasonal advance. Total contracts were 75 per cent higher than in February 1936, when the volume of contracts was especially affected by inclement weather. Contracts for residential building and heavy engineering projects in February were more than twice as large as in the corresponding month last year; contracts for public utility work, alone, were nearly six times as large as in February of last year, the increase being wholly due to the awarding of further contracts for subway construction in New York City.

For the 37 States covered by the F. W. Dodge Corporation report, contracts awarded in February declined to a greater extent than did the total for the New York and Northern New Jersey territory. The decline, amounting to 23 per cent, was accounted for by smaller contract figures reported for each of the major building classifications. Compared with February of last year, however, total contracts showed an increase of 33 per cent; residential construction, which more than doubled, recorded the most pronounced gain. Privately financed projects constituted 63 per cent of the total of all construction work awarded in February, a proportion that has been equaled only once since the summer of 1933.

Commodity Prices

Marked advances in the quotations for both ferrous and nonferrous metals were an important factor in the continued upward movement in general indexes of wholesale commodity prices during March. During the first three weeks of the month the comprehensive Bureau of Labor Statistics index of 784 quotations rose about 2 per cent further, the metals group of this index increasing about 4 per cent to the highest level since early in 1930. The accompanying table shows the recent high points for several individual metal prices, compared with the depression low and previous high points. Most of the quotations have reached levels two or three times the 1932-33 low, and in several cases are above the 1929 highs. All these metals except tin, however, are considerably below the highs established in 1920.

Spot Price	1920 High	1929 High	1932–33 Low	Recent High
Scrap steel, Pittsburgh (dollars a ton)	29.00	19.75	8.25	23.75
Pig iron, composite price (dollars a ton)	47.835	18.71	13.56	23.25
Finished steel composite price (cents a lb.)	4.227	2.317	1.867	2.605
Zinc, E. St. Louis (cents a lb.)	9.50	6.80	2.30	7.50
Lead, N. Y. (cents a lb.)	9.50	8.25	2.65	7.775
Tin, straits, N. Y. (cents a lb.)	65.00	50.375	18.35	67.00
Copper, domestic electrolytic, N. Y. (cents a lb.)	19.50	23.875	4.875	17.00

Gains also occurred in several other actively traded commodities in March. During the course of the month, spot cotton rose about 1⅞ cents further to 15¼ cents a pound, the highest price in seven years. Crude rubber, increasing 5 cents to 27 cents a pound, and cash corn, rising 15⅝ cents to $1.26⅜ a bushel, also reached their highest levels in a number of years. Prices of silk, sugar, and livestock likewise showed net gains, but closed the month slightly below their March highs.

Department Store Trade

During the first half of March, total sales of the reporting department stores in the Metropolitan area of New York were 7.8 per cent higher than in the corresponding period a year ago, but somewhat less than the usual seasonal advance from the February level appears to have occurred.

In February total sales of the reporting department stores in this district were 7 per cent larger than last year, and after allowing for differences in the number of shopping days between this year and last, the increase in average daily sales was about 11 per cent, a larger gain than in the preceding two months. Sales of the leading apparel stores in this district were approximately 5½ per cent higher than last year, and even on a daily basis the year to year increase was slightly smaller than in January.

Department store stocks of merchandise on hand, at retail valuation, were 20.7 per cent higher than last year, the largest year to year increase since April 1934; large increases in stocks were reported in most of the departments. Collections were slightly lower this year than last in the department stores and also in apparel stores, following a higher rate of collections in January.

Locality	Percentage change February 1937 compared with February 1936		Per cent of accounts outstanding January 31 collected in February	
	Net sales	Stock on hand end of month	1936	1937
New York	+ 5.6	+22.9	45.0	43.9
Buffalo	+13.6	+18.7	47.2	46.7
Rochester	+ 6.4	+18.0	46.2	46.0
Syracuse	+ 5.7	+13.8	36.8	38.4
Northern New Jersey	+15.0	+20.6	41.1	40.7
Bridgeport	+ 8.0	+ 5.9	38.9	38.6
Elsewhere	+ 0.8	— 1.4	31.4	31.1
Northern New York State	+ 0.4	....	....	....
Southern New York State	+ 4.9	....	....	....
Central New York State	+ 5.8	....	....	....
Hudson River Valley District	+ 4.0	....	....	....
Capital District	+ 2.8	....	....	....
Westchester and Stamford	—13.1	....	....	....
Niagara Falls	— 2.3	....	....	....
All department stores	+ 7.0	+20.7	43.3	42.6
Apparel stores	+ 5.4	+ 2.8	42.3	41.1

Wholesale Trade

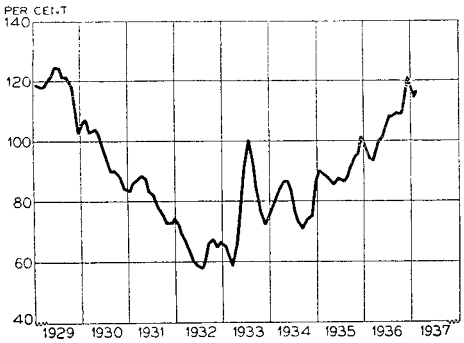
Total February sales of reporting wholesale firms averaged 17.9 per cent higher than last year, a larger increase than in January. Sales of the shoe concerns, and yardage sales of silk goods reported by the National Federation of Textiles, recorded the most substantial gains over a year previous since July 1933. The cotton goods firms registered the largest year to year increase since September 1935, and the diamond concerns the largest increase in a year. Sales of grocery, men's clothing, and paper firms also showed larger increases than in January, and sales of the stationery concerns were reduced by a smaller percentage than in the previous month. On the other hand, hardware firms registered a smaller increase in sales than in the two preceding months, and the jewelry concerns recorded an increase which was considerably less than in most months of the previous year.

Commodity	Percentage change February 1937 compared with February 1936		Per cent of accounts outstanding January 31 collected in February	
	Net sales	Stock end of month	1936	1937
Groceries	+ 7.2	+13.0	86.9	87.0
Men's clothing	+ 8.2	....	49.8	48.1
Cotton goods	+23.4	....	37.7	38.1
Rayon and silk goods	+49.7*	....	55.4	53.7
Shoes	+65.0	....	25.8	28.6
Hardware	+15.4	+38.9	35.2	33.8
Stationery	— 0.6	....	56.7	56.3
Paper	+17.9	....	53.1	58.8
Diamonds	+53.1	+12.7	} 22.6	} 23.5
Jewelry	+13.9	+72.4		
Weighted average	+17.9	....	55.6	55.4

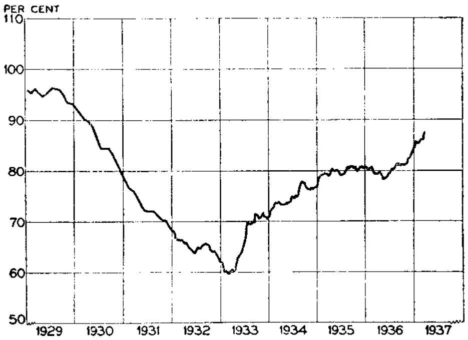
* Quantity figures reported by the National Federation of Textiles, Incorporated, not included in weighted average for total wholesale trade.

FEDERAL RESERVE BANK OF NEW YORK

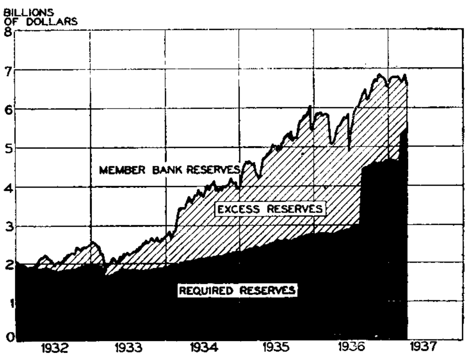
MONTHLY REVIEW, APRIL 1, 1937



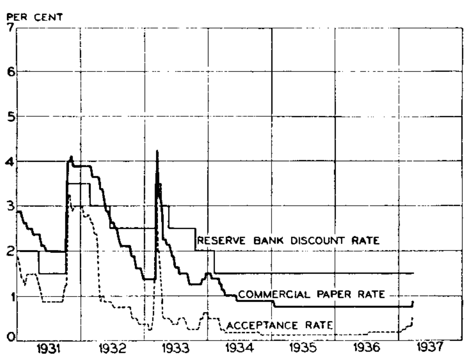
Index Number of Production of Manufactures and Minerals Combined, Adjusted for Seasonal Variation (1923-25 average = 100 per cent)



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



Member Bank Reserve Balances (Latest Figures are for March 24)



Money Rates in the New York Market (March rates are averages for the first 27 days)

Business Conditions in the United States

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

VOLUME of production, employment, and trade increased more than seasonally in February and wholesale prices of industrial commodities continued to advance.

Production and Employment

The Board's index of industrial production, which makes allowance for changes in the number of working days and for usual seasonal variations, was 116 per cent of the 1923-1925 average in February as compared with 114 in January and an average of 115 in the last quarter of 1936. At steel mills activity continued to increase in February and the first three weeks of March and, although the growth was somewhat less than seasonal, output currently is at about the peak level reached in the summer of 1929. Automobile production, while fluctuating considerably with strikes at important plants, has been larger for the year to date than in the corresponding period last year. Output of plate glass in February showed a sharp rise from the low level of the two preceding months when strikes curtailed production. At textile mills and shoe factories activity continued at a high level, while output at meat packing establishments declined somewhat further. Mineral production increased, reflecting chiefly greater output of coal and a further rise in crude petroleum production.

Value of construction contracts awarded this year, according to the F. W. Dodge Corporation, has been considerably larger than a year ago, reflecting an increased volume of private residential building and other types of private construction, while the volume of publicly financed work has been smaller.

Factory employment and payrolls increased from the middle of January to the middle of February by more than the usual seasonal amount. The number employed in the machinery industries increased considerably and there were smaller increases at automobile and plate glass factories. In the nondurable goods industries as a group there was a seasonal rise in employment.

Distribution

Department store sales increased from January to February and the Board's seasonally adjusted index advanced from 93 to 95 per cent of the 1923-1925 average. Sales at variety stores also increased more than seasonally, while mail order sales, largely in rural areas, showed less expansion than is usual at this time of year. Total freight car loadings increased in February and the first half of March, owing in part to seasonal influences.

Commodity Prices

The general level of wholesale commodity prices advanced from the middle of February to the third week of March, reflecting principally further substantial increases in the prices of industrial materials. Prices of iron and steel, nonferrous metals, lumber, cotton, rubber, and hides advanced considerably and there were also increases in the prices of cotton goods, paper, and furniture. Wheat prices have advanced in recent weeks following a decline in the latter part of February.

Bank Credit

On March 1, when the first half of the recent increase in reserve requirements went into effect, excess reserves of member banks declined from $2,100,000,000 to about $1,300,000,000. In the next three weeks, which included the March tax collection period, excess reserves showed moderate fluctuations around the new level. In connection with the increase in reserve requirements there were some withdrawals of bankers' balances from city banks but practically no borrowing by member banks from the Reserve Banks.

Holdings of United States Government obligations at reporting member banks in leading cities declined by $280,000,000 in the four weeks ended March 17, a part of the decline reflecting large maturities of Treasury bills. Commercial loans increased further at reporting banks and on March 17 were above last year's high level reached on December 30. Loans to brokers and dealers in securities increased sharply.

Money Rates

Since the beginning of March the rate on 90 day bankers acceptances advanced from 5/16 of 1 per cent to 9/16 of 1 per cent and commercial paper rose from a flat ¾ per cent to a range of between ¾ and 1 per cent.

Bond yields, which until recently had been near the extreme low point reached last December, advanced by between ¼ and ½ per cent and on March 24 were at about the levels prevailing early in 1936.