MONTHLY REVIEW
of Credit and Business Conditions
Second Federal Reserve District

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

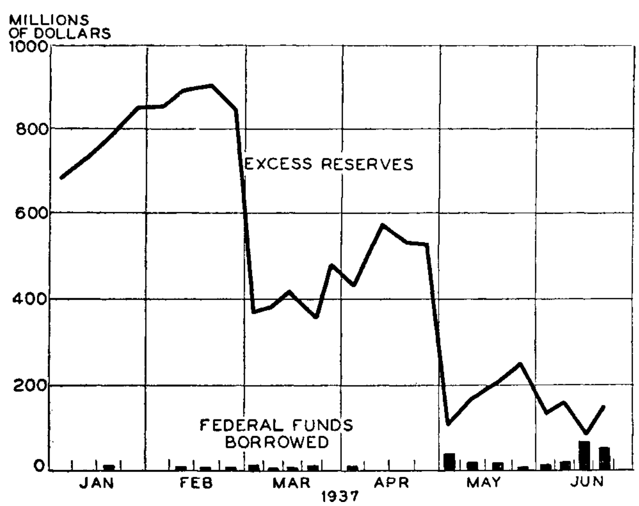
Money Market in June

The June financing operations of the Treasury, and the turnover of funds incident to the quarterly tax period, provided the first such test of the money market since member bank reserve requirements were increased and member bank excess reserves were reduced on May 1. Since the summer of 1934, with excess reserves of all member banks amounting until early this year to between $1,750,000,000 and $3,000,000,000, and with the New York City banks holding excess reserves of around $1,000,000,000, movements of reserve funds of as much as $500,000,000 to $1,000,000,000 occasioned little or no disturbance in the money market. Now that excess reserves of all member banks have been reduced to less than $1,000,000,000, however, and the excess in New York City is ranging from $100,000,000 to $250,000,000, it is natural for the money market to be somewhat more sensitive to major movements of reserve funds, and to changes in required reserves, particularly in view of the higher percentages now required to be maintained as reserve against deposits. Nevertheless, the money market accommodated itself to the changes incident to the mid-June period without difficulty.

The New York City banks, because of the normally large variations in their reserve balances and reserve requirements, due in part to transfers of funds to and from other parts of the country, are usually the first to feel the effects of any extraordinary demands for reserve funds, such as accompany the Treasury tax period operations. Despite the very substantial movements of funds (described in some detail below) which characterized the recent quarterly tax period, however, the New York market met its reserve needs without recourse to the Reserve Bank and without any advance in money rates; in fact, as the reserve position in New York became easier, following the passage of the peak of income tax collections, the bill dealers reduced their rates for most maturities of bankers acceptances by 1/16 per cent on June 22.

At the time of the May 1 increase in reserve requirements of member banks, the net amount of excess reserves held by New York City banks was reduced, for a short time, to slightly below $100,000,000, and the individual banks which were short of reserves borrowed reserve balances from other banks, which held excess reserves, by means of purchases of "Federal funds". In the following two weeks, excess reserves in New York rose to about $200,000,000, and these borrowings of "Federal funds" were largely retired. As the accompanying diagram indicates, the New York City banks held approximately $160,000,000 of excess reserves immediately prior to June 15. The transactions incident to the tax period again reduced net excess reserves to slightly below $100,000,000, and individual New York City banks once more borrowed "Federal funds". The volume of "Federal funds" being borrowed on June 16, the peak for the period, amounted to $71,000,000.

The reduction in New York City member bank excess reserves, to slightly below $100,000,000 on June 16, was due more to a rise in the amount of reserves required, because of an increase in deposits, growing out of bank purchases of new issues of Government securities with book credits to Treasury account, than to an actual decrease in reserve funds as a result of Treasury transactions. These latter transactions included losses of funds through income tax collections and cash payments for new issues of Treasury notes, but these losses were largely offset by gains arising from payment of interest on the public debt and payments to the market for maturing Treasury bills. Of the $421,400,000 of Treasury notes issued June 15 and allotted in this district, however, 87 per cent were paid for by book credit and, as New York City member banks must now maintain a 26 per cent reserve against net demand deposits, the resultant rise in Government deposits absorbed a sub-



Net Excess Reserves of 21 of the Principal New York City Banks and Their Borrowings of Federal Funds (Latest figures are for June 23)

stantial amount of reserve funds, and caused a corresponding reduction in excess reserves.

This situation in the money market was quickly relieved. On June 17 and 18, an additional $200,000,000 of Treasury bills matured without replacement, and funds received by the New York market for its substantial holdings of these bills, together with payments received for gold imports, considerably exceeded further losses to the market through income tax collections and a continued outflow of funds to other districts. Concurrently, reserve requirements of the New York City banks declined somewhat owing to a reduction in deposits, with the result that excess reserves returned to $155,000,000 on June 23 and the borrowing of "Federal funds" was reduced by $23,000,000 to $48,000,000. In the last week of June, there were further gains of funds to the New York market, reflecting principally an inflow from other parts of the country, and on June 29 excess reserves of New York City member banks amounted to $270,000,000, as compared with about $230,000,000 during the last week of May.

For the country as a whole, excess reserves of all member banks showed little net change between May 26 and June 9, and amounted to $930,000,000 on the latter date. In the following week they were reduced to $750,000,000, owing principally to an increase of $165,000,000 in Treasury balances held in the Reserve Banks (which took a corresponding amount of funds out of the commercial banks), and to a rise in member bank deposits and, therefore, in their required reserves. The increase in Treasury deposits in the Reserve Banks, during this period, was caused by income tax collections and the sale for cash of part of the new issues of Treasury notes, the proceeds of which temporarily exceeded funds disbursed by the Treasury on account of interest payments and a Treasury bill maturity, without replacement. The amount of the new Treasury issues paid for immediately in cash on June 15—24 per cent of the total allotted—was considerably smaller than in December 1936, when 55 per cent of the total issue was paid for in cash, and still smaller than in June and September 1936 when the proportion of cash payments amounted to 77 per cent. The larger use of book credit payments by the subscribing banks for the most recent issues of Government securities reflects the reduction which has occurred in excess reserves during the past year, and represents a return to a more extensive use of a means of payment used when excess reserves were small or nonexistent. In the week following June 16, the redemption of Treasury bills, without replacement, and other Treasury disbursements exceeded further income tax collections, and Treasury balances at the Reserve Banks were reduced, with a corresponding increase in member bank excess reserves to $810,000,000 on June 23. Currency demands incident to the June month end and the approaching Fourth of July holiday tended to reduce the excess reserves of the member banks during the last week of the month, but there was a further reduction in Treasury balances in the Reserve Banks, due in part to payments for further gold imports, and excess reserves of all member banks of the country held above $800,000,000.

Money Rates in New York

	June 30, 1936	May 28, 1937	June 29, 1937
Stock Exchange call loans	1	1	1
Stock Exchange 90 day loans	*1¼	*1¼	*1¼
Prime commercial paper—4 to 6 months	¾	1	1
Bills—90 day unindorsed	⅛	½	7/16
Customers' rates on commercial loans (Average rate of leading banks at middle of month)	1.67	1.67	1.67
Yield on Treasury notes maturing February 1938	....	0.32	0.32
Average yield on Treasury notes (1-5 years)	0.78	1.17	†1.34
Average yield on Treasury bonds (more than 5 years to earliest call date)	2.35	2.50	2.55
Average rate on latest Treasury bill sale 273 day issue	0.19	0.56	0.62
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 +0.10 from previous yields due to the dropping of the 2⅞ per cent Treasury notes of June 15, 1938, because the issue matures within one year, and the inclusion of both the new 1⅜ per cent Treasury notes of September 15, 1939, and the new 1¾ per cent Treasury notes of March 15, 1942.

Member Bank Credit

Holdings of United States Government direct securities by reporting member banks in 101 cities increased $298,000,000 during the week ended June 16, of which $79,000,000 was at New York City banks and $219,000,000 at reporting banks in other cities. This rise reflected purchases of the new Treasury note issues dated June 15, in excess of maturities of Treasury bills on June 16. Comparison of the increase in Government security holdings of these banks with the rise in their Government deposits, which were created by book credit payment for the new issues, indicates that a sizable part of the new issues allotted to these banks probably represented subscriptions entered for account of the banks' customers and consequently were not added to the banks' own portfolios. In the following week ended June 23, there were declines in Government security holdings of the reporting member banks—$118,000,000 in New York and $64,000,000 in other leading cities—reflecting the maturity of $200,000,000 of Treasury bills on June 17 and 18, without replacement.

For the five week period from May 19 to June 23, Government security holdings of the reporting banks showed a net increase of $60,000,000, virtually all of which occurred outside New York City. Other security holdings, however, were reduced $89,000,000, so that total security holdings showed a small decline for the period. Commercial, industrial, and agricultural loans, on the other hand, advanced $120,000,000 further, of which $99,000,000 was at New York City banks, and loans to brokers and dealers in securities rose $121,000,000, also largely in New York, reflecting increased borrowing requirements of Government security dealers over the quarterly financing date, and a heavier volume of other new security offerings. As a result of these and other small changes, total loans and investments of all reporting banks rose $237,000,000 during the period, of which $195,000,000 was at New York City banks.

Government Securities

The June quarterly financing of the Treasury included the issuance of a total of $852,800,000 of new Treasury notes, composed of $426,500,000 of 1⅜ per cent notes maturing September 15, 1939, and $426,300,000 of 1¾ per cent notes maturing March 15, 1942. Subscriptions to these issues aggregated about $5,000,000,000, divided approximately equally between the 2¼ and 4¾ year maturities. Other operations during June, affecting the amount of Government securities outstanding in the market, included the maturity of $300,000,000 of tax period Treasury bills on June 16-18, five regular weekly maturities of bills aggregating $250,000,000, and five weekly issues of Treasury bills totaling $300,000,000. Of the new bills issued, $250,000,000 were nine month bills and $50,000,000 will mature September 18, completing the issuance of a total of $350,000,000 of bills to mature at the September tax period. These transactions resulted in an increase of about $600,000,000 in the amount of Government securities outstanding in the market. In addition the Treasury issued $500,000,000 of adjusted service bonds to the Government Life Insurance Fund, and other special securities to the Old Age Reserve Account and Unemployment Trust Fund, and continued sales of United States Savings bonds, so that the total increase in the public debt during the month was approximately $1,175,000,000. The total direct gross debt of the Government was approximately $36,400,000,000 on June 25.

Prices of United States Treasury bonds showed relatively small fluctuations during June. In the first week of the month prices held steady at the higher quotations reached in the latter part of May and then eased slightly in succeeding weeks with the result that the average price of Treasury bonds at the close of the month was about ⅜ of a point lower than at the end of May. The average yield on Treasury bonds of more than 5 years to call date or maturity was 2.55 per cent near the end of June, as compared with 2.50 per cent at the end of May. The average yield on Treasury notes of 1 to 5 year maturity advanced 0.09 per cent during the first half of June and subsequently held steady. The average rates at which the weekly issues of Treasury bills were sold were generally lower than in May, ranging on the 273 day bills between 0.545 and 0.619 per cent as compared with 0.617 to 0.738 per cent in May, but after the issue of June 9 the rate tendency was slightly higher and the last issue of June was sold at a higher rate than the last bill issue sold in May.

Bills and Commercial Paper

Investment demand for bankers acceptances, reflecting in considerable part orders for foreign account, continued to exceed the amount of bills currently coming into the discount market, and on June 22 dealers reduced their rates on 60 day to 6 month maturities. The reduction amounted to 1/16 per cent, except for the bid rate on 5 and 6 month maturities which was reduced ⅛ per cent. Dealers' offering rates, which continue to apply to both indorsed and unindorsed bills, therefore became: 1 to 90 days, 7/16 per cent; 4 months, ½ per cent; and 5 and 6 months, 9/16 per cent. Even after the reduction in rates, the demand for bills continued to exceed the supply, which increased slightly for a short time, and consequently dealers' portfolios remained at a minimum.

During May the volume of bills outstanding showed a decline of a seasonal nature amounting to $9,000,000, reflecting chiefly a decrease in domestic warehouse bills. At the end of May accepting institutions held in their own portfolios approximately 76 per cent of all bills outstanding, the smallest proportion so held in about 3½ years.

(Millions of dollars)

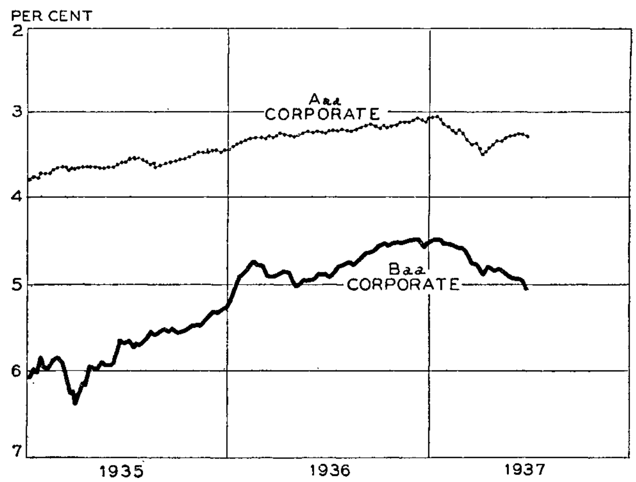
Type of Acceptance	May 31, 1936	April 30, 1937	May 31, 1937
Import	110	167	168
Export	82	83	81
Domestic shipment	9	12	13
Domestic warehouse credit	46	56	48
Dollar exchange	1	1	1
Based on goods stored in or shipped between foreign countries	82	76	75
Total	330	395	386

Bank investment demand for commercial paper during June remained active, quickly absorbing the moderate volume of business notes that became currently available to dealers for resale in the market. The ruling rate for average grade prime 4 to 6 month commercial paper was unchanged at 1 per cent. Occasional sales of very desirable names of short term maturity continued to be made at ¾ per cent whenever this class of paper became available. Business was also done in so-called secondary names at 1¼ per cent.

Commercial paper houses reported a total of $287,000,000 of paper outstanding at the end of May. This total was about 1 per cent higher than a month ago and 56 per cent above the total for a year ago.

Security Markets

Divergent movements in domestic corporation bond prices occurred during June, as the accompanying diagram indicates. In the first ten days of the month high grade corporation bonds advanced about ⅝ of a point further, making a total recovery from the April low of 4¼ points, but in the same period medium grade issues held at virtually the April lows. In the succeeding part of June prices of high grade issues receded slightly while a sizable renewed decline developed in medium grade issues, the group rated Baa by Moody's Investors Service receding nearly 3 points further to a new low since

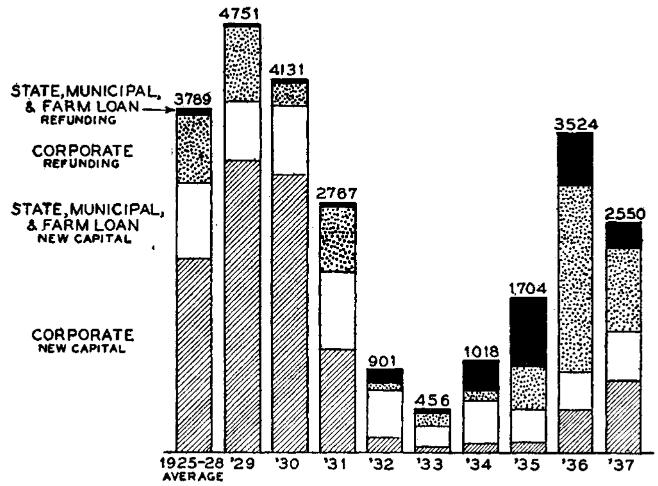


Movement of High Grade and Medium Grade Corporation Bonds (Moody's Investors Service data for yields on Aaa and Baa issues; scale inverted to show price tendencies)

January 1936. Railroad bonds contributed most heavily to the decline in medium and lower grade issues. The average yield on Aaa bonds toward the end of June was 3.30 per cent as compared with the April high of 3.48 per cent; Baa issues at the end of June yielded 5.14 per cent on the average, as against a high of 4.93 per cent in April.

A further decline developed in stock prices during the first half of June and on the 16th the general average of share prices was about 3 per cent below the previous low reached on May 17 and 19 per cent below the March high. This decline carried prices to the lowest level since July 1936 and the recession since March of this year represented the loss of about one-third of the advance between March 1935 and March 1937. In the second half of June, industrial and public utility stock prices fluctuated around the levels reached at midmonth while railroad shares declined further.

The turnover of stocks on the New York Stock Exchange during June was even lighter than in May. Average daily sales amounted to 700,000 shares and on only two days did the trading exceed one million shares.



Offerings of Domestic Securities in First Six Months of 1937 Compared with Corresponding Period of Previous Eight Years and Average for 1925-28 (Commercial and Financial Chronicle data, excluding investment trusts; in millions of dollars. June 1937 figures preliminary)

New Financing

During June a considerable increase occurred in the volume of corporate financing for purposes other than refunding of outstanding security issues. The greater part of the new capital raised is to be used for additions or improvements to plants or to reimburse company treasuries for such expenditures already made, but some other amounts are to be applied in the retirement of bank debt and increases in finance company loans. The June increase in new capital issues represents a continuation of the gradual increase in this type of financing over the past two years. There was also some increase between May and June in the volume of corporate refunding issues, with the result that total corporate financing during the month amounted to approximately $415,000,000, the largest since December 1936. The total of State, municipal, and farm loan financing at approximately $220,000,000 was the largest since January. According to a preliminary tabulation, therefore, the total volume of new security offerings, other than United States Government issues, reached approximately $635,000,000 for June, or more than double the May volume.

The larger corporate issues of the month included $95,000,000 of Union Electric Company of Missouri bonds and notes, of which $81,000,000 of the proceeds are for refunding and the balance for new capital purposes; $75,000,000 Socony-Vacuum Oil Company debentures sold privately to a group of life insurance companies—a large part of the proceeds of this issue are to be used to provide for new capital requirements; $50,000,000 E. I. duPont de Nemours & Company preferred stock, to raise funds in contemplation of increasing manufacturing facilities; $35,000,000 Commercial Credit Company debentures, the proceeds to be used to purchase receivables and replace short term notes; $25,000,000 New York Telephone Company bonds to retire outstanding preferred stock; $20,300,000 Phelps Dodge Corporation convertible debentures issuable to stockholders on exercise of rights, providing funds for developments and improvements; and a number of other corporate bond and stock issues in amounts between $10,000,000 and $20,000,000. In the State and municipal field, $60,000,000 Commonwealth of Pennsylvania tax anticipation notes and $40,000,000 of State of New York serial bonds were offered during the month. Reflecting the further recovery in the market prices of outstanding high grade securities, the larger volume of new offerings of high grade securities announced in June was on the whole fairly readily distributed. The sale of a few of these issues, priced, according to market reports, rather high, and also the distribution of several less high grade issues, however, tended to be somewhat slow.

The volume of domestic security issues during the first half of this year is compared in the accompanying diagram with flotations in the corresponding period of other recent years. A preliminary compilation places the total for the first half year at $2,550,000,000 which is a decrease of $1,000,000,000 from the total for the first six months of 1936. The decline was entirely due to smaller refunding operations which reached very large proportions in 1936. New capital flotations by corporations amounted to approximately $800,000,000, as compared with $450,000,000 a year ago and only $60,000,000 in 1933, but remained $350,000,000 less than in 1931 and much less than in the preceding years shown in the diagram. New capital issues by States, municipalities, and farm loan agencies rose further to $550,000,000, also the largest since 1931.

Building

Total building and engineering contracts awarded in the New York and Northern New Jersey area increased further in May, although the gain was less pronounced than in the preceding month. Contracts for residential, commercial, and factory building fell considerably below April levels, but contracts for buildings designed for various public uses were more than double the April volume, and contracts for engineering work were nearly 50 per cent higher. The increase in buildings for public purposes was largely accounted for by the placing of large contracts for school, college, and hospital buildings in Metropolitan New York, while the gain in heavy engineering work occurred largely in the up-State area. Compared with May of last year gains were shown in each of the principal classifications and total contracts were 51 per cent higher.

In contrast to the May increase in the territory corresponding roughly to the Second Federal Reserve District, the full F. W. Dodge Corporation report indicated a decline of 6 per cent in the average daily rate of total construction contracts awarded in the 37 States included. The May figure for the 37 States, however, was 13 per cent higher than the May 1936 total.

(Percentage change in average daily figures)

	N. Y. and Northern N. J.		37 States	
	May 1937 compared with		May 1937 compared with	
	April 1937	May 1936	April 1937	May 1936
Building				
Residential	— 30	+ 27	—19	+19
Commercial and factory	— 19	+ 30	—22	+40
Public purpose*	+104	+ 41	+37	— 3
Total building	— 1	+ 33	—10	+16
Engineering				
Public works	+ 49	+135	+30	+10
Public utilities	+ 48	+186	—47	—16
Total engineering	+ 49	+144	+ 6	+ 5
Total construction	+ 9	+ 51	— 6	+13

* Includes educational, hospital, public, religious and memorial, and social and recreational building.

Data for the first half of June showed a considerable upturn in construction contracts in the 37 States, average daily awards being 17 per cent above the May rate. A large contraseasonal gain was reported for residential building, and other types of construction registered increases considerably in excess of their usual upward movement at this time of the year.

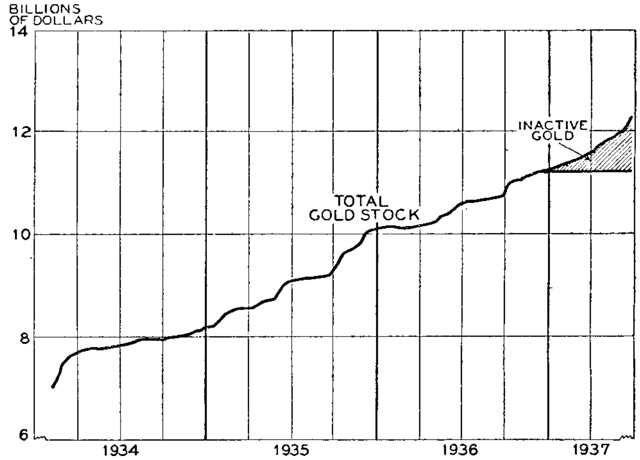
Central Bank Rate Changes

Effective June 15 the Bank of France raised its discount rate from 4 to 6 per cent, the same level as prevailed from May 7 to June 23, 1936. The rate for 30 day advances on French Government securities was also raised to 6 per cent, and the rate for 3 month general advances to 7 per cent.

Gold Movement

The gold stock of the United States rose approximately $330,000,000 further during June—by far the largest increase for any month since October 1935. Concurrently, the inactive gold account of the Treasury increased and on June 25 amounted to $1,057,800,000. The accompanying diagram indicates the extent of the rise in the gold stock since devaluation of the dollar in January 1934 and the increase since December 1936 in that part of the gold stock held in the inactive account.

Imports affecting the gold stock totaled $202,800,000 during June, of which $145,000,000 from England, $20,400,000 from Canada, $10,600,000 from France, $4,800,000 from India, $2,300,000 from Switzerland, $2,200,000 from Colombia, and $400,000 from Holland came to New York. On the West Coast receipts included $15,300,000 from Japan, $1,600,000 from Australia, and $200,000 from Hongkong. In addition, $15,000,000 of gold was released from foreign account earmarkings at the Federal Reserve Bank of New York and receipts by the gold stock from other sources, including newly mined and scrap gold, totaled about $113,000,000.



Total Gold Stock of the United States, and Part Held in Inactive Account of the Treasury (Latest figures are for June 23)

Foreign Exchanges

An increasingly pressing fiscal and exchange situation in France, which led to a cabinet realignment and provided the background for a greatly accelerated export of capital from France, was the major development affecting the foreign exchange market in June. The rate for spot francs, after weakening in the first few days of the month from 110.57 francs per pound sterling on June 1 to 110.90 francs on June 9, was held within a range of 110.87—110.91 during most of the remainder of the month, presumably through extensive supporting operations by the French Stabilization Fund. The franc quotation in New York, which had closed at $0.0445⅝ on June 1, thereafter fluctuated narrowly, inasmuch as the advance in the London-Paris rate early in the month occurred simultaneously with a moderate rise in sterling against the dollar. The pressure against French exchange was more clearly evident in forward quotations, which weakened sharply through June 26. The rate on three month forward francs, which had been quoted at a discount equivalent to 7½ per cent per annum on June 2, widened to a discount equivalent to 11 per cent per annum on June 9, and to 36 per cent on June 26. On the same day, forward quotations on the one month franc contract reached a discount of 35 points, or the equivalent of 94 per cent per annum. On June 28, however, owing to an oversold technical position in the franc market and to end-of-month requirements, French exchange strengthened moderately to 110.52 francs per pound in London and to $0.0446⅜ in this market, these movements being accompanied by some narrowing of forward discounts. On the following day, the French

Government decreed a temporary moratorium on commitments payable in gold or foreign currencies and a suspension of bourse dealings.

The dishoarding of gold, which had been in progress since the devaluation of gold bloc exchanges in September 1936 and had proceeded at an accelerated pace with the development of widespread gold rumors in April, reached an extraordinarily high point in the last few days of May and the early part of June; about $70,000,000 in gold was reported to have been traded in the London bullion market at fixing time alone during the seven business days from May 29 through June 5, as compared with a total of $63,000,000 in the entire month of May, and $33,000,000 in March. Although the British monetary authorities were reported to have bought large amounts of gold during that week, the dollar equivalent of the London gold price fell from $34.70, seven cents below the nominal New York shipment parity, to $34.61 on June 4 and 5, and the dollar-sterling quotation receded from a closing rate of $4.94¼ on May 27 to its low of 4.92⅝ on June 3, as even the heavy gold sales to the United States did not quite offset the effects of the unusual demand for dollars on the part of dishoarders of gold and others. Following renewed denials by the United States and British governments that a change in gold policy was contemplated, the pace of dishoarding abated considerably. The pound-dollar rate reverted to above $4.94 and the dollar equivalent of the London gold price to the vicinity of $34.70. In the latter part of the month the British Government proposed to Parliament a further increase of £200,000,000 in the resources of the Exchange Equalization account. It has been pointed out that a major part of the gold held in private Western hoards prior to the monetary realignment of September 1936 has now passed into official monetary holdings.

Other principal foreign currencies, with the exception of the Dutch guilder, moved generally in sympathy with the pound. The belga appreciated from $0.1683 on June 3 to $0.1689 near the end of the month, and the Swiss franc rose from $0.2282 to $0.2293 during the same period. The guilder held close to $0.5499 until late in June, but reacted slightly to $0.5489½ during the course of trading on the 29th.

Employment and Payrolls

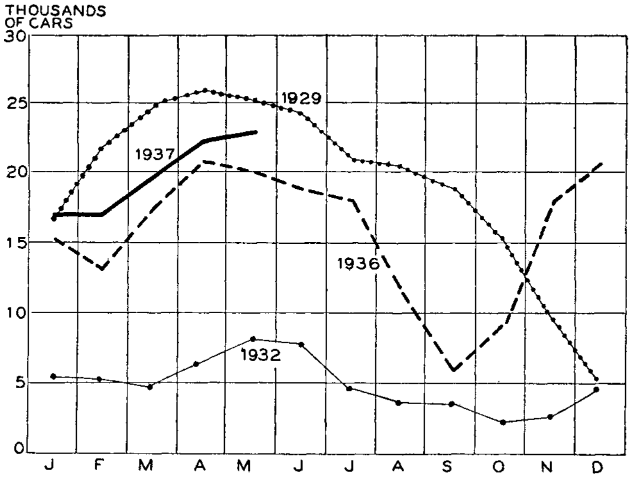
Despite scattered labor difficulties, total employment and payrolls in the manufacturing and nonmanufacturing industries surveyed by the United States Department of Labor continued to advance between the middle of April and the middle of May. Since early in 1936 there has been a practically unbroken series of monthly increases in both employment and payrolls. Since May 1936 nearly 1½ million workers were estimated to have found employment in these industries. The increase in the number of employees from mid-April to mid-May occurred largely in the nonmanufacturing industries, with employment in private building construction and bituminous coal mining registering the most pronounced gains. Of the 16 groups of nonmanufacturing industries, 12 reported more workers than in April and 14 showed higher payrolls. Factory employment and payrolls both remained virtually unchanged, although in the past small declines have been usual at this time of the year. Small increases in employment were reported in practically all of the durable goods industries, but these were largely offset by declines in the nondurable goods group.

At New York State factories the number of workers and aggregate payrolls also remained about unchanged from the middle of April to the middle of May, but inasmuch as declines have predominated during this period in past years, the seasonally adjusted indexes rose between 1 and 2 per cent to the highest levels since the early part of 1930. Compared with a year before, employment increased 16 per cent and payrolls were 30 per cent higher. During the month ended May 15th, the number of workers at metal and machinery industries increased about 1 per cent despite labor troubles at some plants, but employment showed seasonal recessions in the clothing, millinery, and textile industries.

Production

With a recurrence of strikes, the general level of industrial activity appears to have declined somewhat in June. Steel ingot production, which had been maintained in the neighborhood of 90 per cent of capacity for nearly three months, was reduced late in May to about 75 per cent of capacity when strikes occurred in plants of three large independent producers, and according to estimates operations remained near this figure during most of June. Some business was shifted from closed mills to plants not affected by the strikes, but it was reported that the total volume of incoming orders also declined in June. At the end of the month some plants shut down by labor difficulties were gradually reopened. Automobile assemblies were reduced from May to June, reflecting chiefly seasonal influences but also scattered strikes, and reports indicated a tendency toward contraction in cotton mills from recent high levels of activity. Bituminous coal production was approximately unchanged during the first three weeks of June, and electric power output in the same period slightly exceeded the May average.

The seasonally adjusted index of industrial production compiled by the Board of Governors of the Federal Reserve System was 118 per cent of the 1923-25 average in May, unchanged from March and April. In May 1936, the index was 101. Average daily steel production declined somewhat because of the strikes which went into effect near the end of the month, and meat packing operations, lead output, and anthracite coal mining were also lower. Automobile production, however, as indicated in the accompanying diagram, advanced somewhat further in May. Despite persisting labor difficulties, output was 15 per cent larger than in May 1936, and only 9 per cent less than in May 1929. In addition, production of copper, zinc, and bituminous coal showed increases in May, while cotton mill activity and the generation of electric power were maintained close to the levels of April. The dollar volume of machine tool orders, while lower than in April, remained at an exceptionally high level.



Daily Average Production of Passenger Automobiles and Trucks in 1937, Compared with Certain Previous Years

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

	1936	1937		
	May	March	April	May
Metals				
Pig iron	72	99	99	95
Steel *r*	84	103	104	105
Copper	64	104	101	111
Lead *r*	66	67	77	65
Zinc *r*	86	94	98	104
Automobiles				
Passenger cars	88	98	95	102*p*
Motor trucks	102	110	113	123*p*
Fuels				
Bituminous coal	81*r*	123	77	84*p*
Anthracite coal	103*r*	97	130	86*p*
Petroleum, crude	87	97	98	98*p*
Petroleum products	85	91	90	
Electric power	90	94	94	96*p*
Textiles and Leather Products				
Cotton consumption	89	115	113	114
Wool consumption	96*r*	137	122	125*p*
Silk mill activity	54	65	65	63*p*
Rayon deliveries*	88	94	99	103
Shoes	106	130*r*	123*p*	117*p*
Foods and Tobacco Products				
Meat packing	81	91	86	74
Wheat flour	81	79	88	80
Tobacco products	84	92	91	86
Miscellaneous				
Cement	59	76	70	62
Lumber	65	68	69	
Newsprint paper	76	83	82	81*p*
Machine tools	116	175	251	198

p Preliminary *r* Revised * For quarter ended

Indexes of Business Activity

During the first half of June department store sales throughout the United States were substantially higher than in the corresponding period last year; for the Metropolitan area of New York the increase amounted to 9 per cent, and somewhat more than the usual seasonal advance from the May level was indicated. However, merchandise and miscellaneous freight car loadings during the first three weeks of the month were somewhat below the May average, whereas usually no change occurs from May to June, and a small contraseasonal decrease occurred in shipments of bulk commodities.

The level of general business activity and the distribution of goods showed a rising tendency from April to May. Registrations of new passenger cars were estimated at 416,000 units, an increase of 134,000 cars over the previous month, and an advance of 23,000 cars over May 1936. Department store, mail order house, and chain store sales throughout the country were larger than in April. Contrary to the usual seasonal movement, merchandise and miscellaneous freight car loadings were somewhat below the April average, while shipments of bulk commodities advanced slightly more than in most other years. About the usual seasonal recession was shown in the volume of advertising, in sales of new life insurance policies, and in the volume of check transactions throughout the country.

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

	1936	1937		
	May	March	April	May
Primary Distribution				
Car loadings, merchandise and misc.	70	81	79	78
Car loadings, other	78	87	88	90
Exports	74	76	84	
Imports	85	107	104	
Distribution to Consumer				
Department store sales, U. S.	88	86	85	88
Department store sales, 2nd Dist.	89	84	85	88
Chain grocery sales	70	67	64	65
Other chain store sales	95	92	88	98
Mail order house sales	98	99*r*	102	105
Advertising	78	80	83	82
New passenger car registrations	100	110	71*p*	104*p*
Gasoline consumption	93	102	101	
General Business Activity				
Bank debits, outside New York City	65	70	67	67*p*
Bank debits, New York City	42	40	36*r*	35*p*
Velocity of demand deposits, outside New York City	69	73	69	70
Velocity of demand deposits, New York City	47	48	45	42
New life insurance sales	72	76	74*p*	74*p*
Employment, manufacturing, U. S.	91	102	103	104*p*
Employee hours, manufacturing, U. S.	82	97	96	96*p*
New corporations formed in N. Y. State	72	70	72	65
Residential building contracts	30	34	37	29
Nonresidential building and engineering contracts	54	46	51	51
General price level*	150	162	162	162*p*
Composite index of wages*	190	202	204	204*p*
Cost of living**r*	144	150	151	152*p*

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

Commodity Prices

The downward movement in wholesale commodity prices which began early last April continued through most of June. The declines were confined largely to agricultural commodities and related food products. The farm products group in the comprehensive Bureau of Labor Statistics index receded 9 per cent between April 3 and June 19 to a new low for the year, and the wholesale foods classification showed a reduction of 4 per cent, also reaching a new 1937 low point. The index of all other commodities, however, showed virtually no net change during this period.

The Moody's Investors Service index of 15 sensitive commodities, in which agricultural products are heavily weighted, showed a decline of about 4 per cent during the first half of June but an advance in the latter part of the month canceled most of this loss. Among the individual items, wide fluctuations were noted in several agricultural commodities, as a result of varying reports of weather conditions and crop prospects. Accompanying favorable weather reports, cash corn at Chicago declined to as low as $1.13 a bushel on June 17; the price subsequently recovered, however, to close the month at $1.31, slightly above the end of May, but 7¾ cents below the April high. Wheat prices also moved lower in the first week of June, but during the remainder of the month a pronounced advance was shown and the cash quotation for the Number 1 grade at Minneapolis, after reaching $1.28⅝ a bushel on June 7, closed the month at $1.52, or 10¾ cents higher than a month ago. The strength shown in the latter part of the month reflected chiefly reports of drought conditions in the Saskatchewan area and reports of black rust damage to the domestic crop of both winter and spring wheat. The June 1 Government crop report, issued on June 10, estimated winter wheat production at 649,000,000 bushels, a figure about in line with trade expectations. Based on March acreage intentions and June 1 condition, the spring wheat crop was placed between 175,000,000 and 200,000,000 bushels, or considerably below previous private forecasts which had indicated an average of about 229,000,000 bushels, but greatly in excess of 1936 actual production of 107,000,000 bushels.

A reduction of almost 1 cent a pound occurred in the spot quotation for cotton during the first half of June, but a subsequent advance brought the price at the close of the month to 12.66 cents a pound, or 64 points below the end of May. The price of raw silk, on the other hand, rose 8 cents during June to $1.87½ a pound, following the declines of the two previous months. Net gains for the month also occurred in the average price of steers, which reached the highest level since April 1935, and in the price of raw sugar. In the metals group, there was some reduction in scrap steel prices, while prices of other leading metals showed virtually no change during June.

Department Store Trade

During the first half of June total sales of the reporting department stores in the Metropolitan area of New York were 9 per cent larger than in the corresponding period a year ago.

Locality	Percentage change May 1937 compared with May 1936		Per cent of accounts outstanding April 30 collected in May	
	Net sales	Stock on hand end of month	1936	1937
New York	+ 7.9	+20.4	50.5	51.4
Buffalo	+ 7.1	+14.9	48.1	53.0
Rochester	+ 7.5	+15.6	47.7	49.2
Syracuse	+11.9	+16.2	40.4	42.9
Northern New Jersey	+ 8.2	+20.0	41.8	43.7
Bridgeport	+14.6	+ 7.4	40.6	42.3
Elsewhere	+ 5.2	+ 0.4	36.9	38.4
Northern New York State	— 1.6	......	....	....
Southern New York State	+ 4.2	......	....	....
Central New York State	+ 7.9	......	....	....
Hudson River Valley District	+ 5.7	......	....	....
Capital District	+ 2.3	......	....	....
Westchester and Stamford	+ 5.8	......	....	....
Niagara Falls	+11.4	......	....	....
All department stores	+ 8.0	+18.7	46.8	48.4
Apparel stores	+ 6.0	+ 2.3	45.2	46.6

Total May sales of the reporting department stores in this district were 8 per cent higher than last year, a larger increase than in April when sales comparisons were affected by the earlier date of Easter this year than last. Department stores in nearly all localities recorded advances over May 1936, the larger increases occurring in Syracuse, Bridgeport, and Niagara Falls. The decrease in sales reported by the Northern New York State stores was smaller than the previous month's decline. Sales of the leading apparel stores in this district were 6 per cent higher than last year, a larger increase than in the previous month.

Department store stocks of merchandise, at retail valuation, continued in May to be substantially higher than last year, with most of the principal departments showing sizable increases. Apparel store stocks were slightly higher. Collections were better this year than last in the department stores in all localities, and also in the apparel stores.

Wholesale Trade

In May sales of the reporting wholesale firms in this district averaged 15 per cent higher than last year, a slightly larger increase than in April. Men's clothing concerns reported the largest increase in sales since July 1936 and stationery firms registered the largest advance since December 1936. In addition, sales of the diamond and shoe concerns made more favorable comparisons than in the previous month. Sales of the drug firms, reported by the Department of Commerce, showed a smaller increase than in April, however, and sales of the grocery, paper, and jewelry concerns, and yardage sales of rayon and silk goods reported by the National Federation of Textiles, showed smaller increases than in the past two or three months. Hardware sales recorded the smallest increase since January 1936, and cotton goods sales registered the first decrease since August 1935.

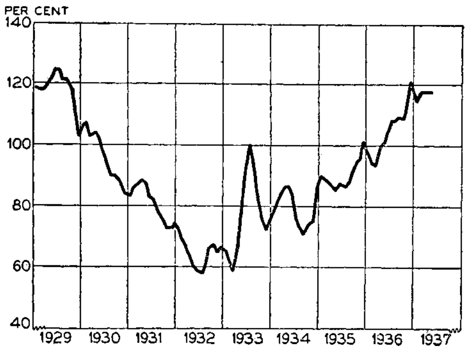
At the end of May, stocks held by the reporting grocery, hardware, and diamond concerns continued substantially higher than a year ago, while stocks of the jewelry firms remained below the 1936 level. Collections of accounts outstanding were lower in May than a year ago in a majority of reporting lines.

Commodity	Percentage change May 1937 compared with May 1936		Per cent of accounts outstanding April 30 collected in May	
	Net sales	Stock on hand end of month	1936	1937
Groceries	+10.2	+21.7	87.1	89.2
Men's clothing	+23.8	......	38.2	37.5
Cotton goods	— 6.0	......	43.5	40.5
Rayon and silk goods	+10.1*	......	64.4	55.4
Shoes	+ 6.8	......	43.9	39.2
Drugs and drug sundries	+ 3.9†	......	....	....
Hardware	+ 1.1	+17.2	46.4	43.2
Stationery	+17.9	......	54.1	59.2
Paper	+18.7	......	61.6	52.3
Diamonds	+124.4	+76.2	21.7	22.2
Jewelry	+24.0	— 8.3		
Weighted average	+15.1	......	57.4	55.8

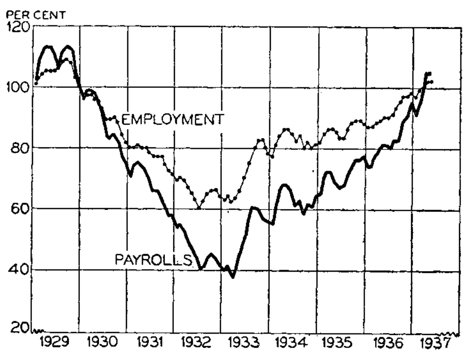
* Quantity figures reported by the National Federation of Textiles, Incorporated, not included in weighted average for total wholesale trade.
† Reported by Department of Commerce.

FEDERAL RESERVE BANK OF NEW YORK

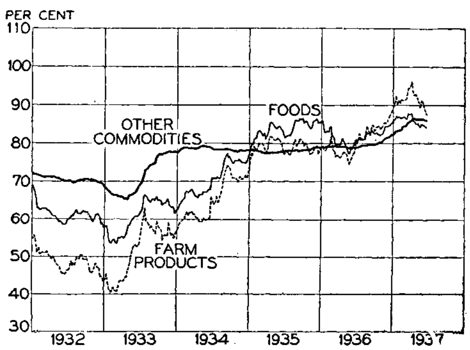
MONTHLY REVIEW, JULY 1, 1937



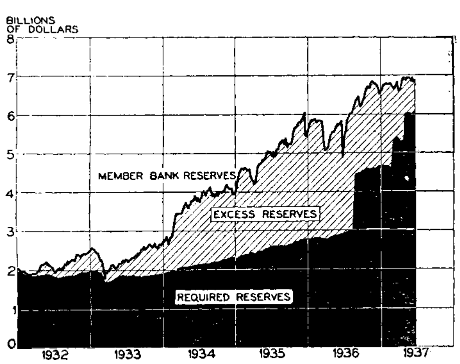
Index Number of Production of Manufactures and Minerals Combined, Adjusted for Seasonal Variation (1923-25 average=100 per cent)



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)



Member Bank Reserve Balances (Latest figures are for June 23)

Business Conditions in the United States

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

VOLUME of industrial production in May continued at the level of the two preceding months. Commodity prices declined slightly in May and the first three weeks of June.

Production, Employment, and Trade

In May the Board's seasonally adjusted index of industrial production remained unchanged at 118 per cent of the 1923-1925 average. Output of iron, steel, automobiles, and lumber increased further. At cotton and woolen mills and at shoe factories activity continued at a high level, while at silk mills, meat packing establishments, and sugar refineries there were considerable decreases. Crude petroleum production continued to rise and output of bituminous coal increased somewhat, following a sharp decline in April. Shipments of iron ore in May were larger than in the corresponding month of any previous year. In the first three weeks of June automobile production declined seasonally and, largely owing to labor disturbances, steel output was reduced to 77 per cent of capacity as compared with 90 per cent in May.

Value of construction contracts awarded in May was smaller than in April, according to figures of the F. W. Dodge Corporation. There were declines in awards for residential and other private projects, while contracts for public projects increased. In the first half of June awards for both private and public work were at a somewhat higher rate than in May.

Factory employment, which usually declines at this season, showed little change from April to May and the Board's adjusted index advanced somewhat further. Employment in the durable goods industries continued to increase while employment in other lines declined seasonally. Factory payrolls remained at the April level, following sharp increases in earlier months.

Distribution of commodities to consumers continued in May at the level of other recent months. Sales at department stores and at variety stores showed a seasonal rise and mail order sales were maintained.

Commodity Prices

Between the middle of May and the third week of June, prices of grains, except spring wheat, declined considerably and there were smaller declines in cotton, cotton goods, wool, rubber, and steel scrap, while prices of most other commodities showed little change.

Bank Credit

Excess reserves of member banks, which had been about $900,000,000 after the May 1 increase in reserve requirements, declined by about $180,000,000 during the week ended June 16, in connection with Treasury operations, but increased in subsequent days and on June 23 were at a level of $810,000,000.

At reporting member banks in leading cities holdings of United States Government obligations, after several weeks of little change, increased sharply during the week ended June 16, reflecting purchases of the new issues of Treasury notes.

Commercial loans at member banks continued to increase in the four weeks ended June 16. This increase was largely at banks in New York City, which also showed a growth in loans to other New York banks and to brokers and dealers in securities.

Money Rates

The open market rate on 90 day bankers acceptances, which had been reduced from 9/16 to ½ of 1 per cent on May 7, was further reduced to 7/16 of 1 per cent on June 22. Other money rates have shown little change in recent weeks.