

# MONTHLY REVIEW

## of Credit and Business Conditions

### Second Federal Reserve District

Federal Reserve Bank, New York

August 1, 1937

#### Money Market in July

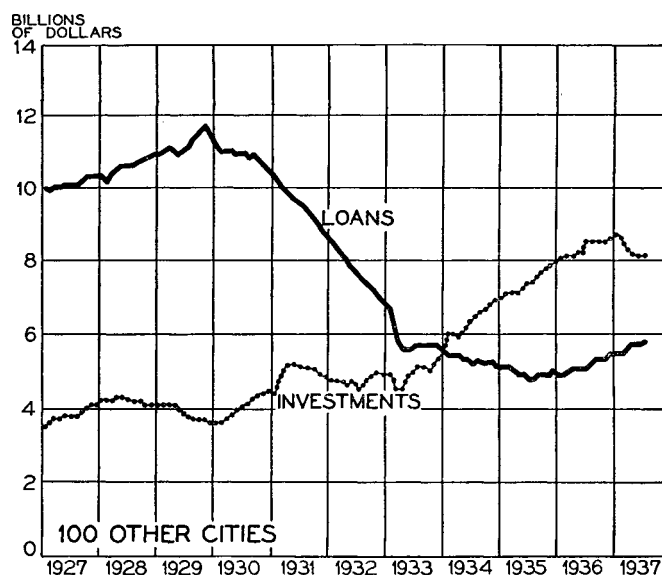
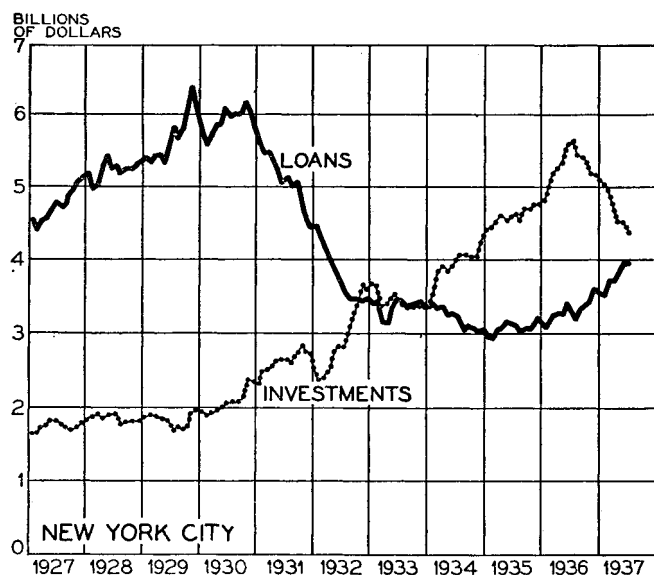
The developments in the money market during the past month have reflected, on the one hand, a renewed demand for short term credit for commercial and industrial purposes and, on the other hand, an increased demand for investment securities on the part of investors other than the weekly reporting member banks.

The volume of commercial, industrial, and agricultural loans in the reporting member banks, after leveling off in the latter part of June and first week of July, resumed the upward trend of previous months during the second and third weeks of July, and on July 21 reached a new high point for the recovery period. In the large New York City banks the volume of business loans now shows a very substantial increase in comparison with a year previous; while definite figures on the amount of commercial and industrial loans were not available prior to May of this year, the data on the volume of loans other than security loans indicate an expansion of at least one-third during the past year. In 100 other principal cities of the country, the data for weekly reporting member banks have shown a somewhat larger increase than in New York City in the volume of business loans during the past month, and, as in the case of the New York City banks, such loans rose to the highest level in several years.

The increase during the past year, although not as large proportionately as in the New York City banks, was substantial, the volume of loans other than security loans being nearly \$700,000,000, or about 20 per cent, higher on July 21 than a year ago.

On the other hand, holdings of United States Government securities by the reporting member banks declined further in July, notwithstanding the renewed offering by the Treasury in each of the last three weeks of the month of \$100,000,000 of Treasury bills against maturities of \$50,000,000. This decline apparently reflected a good demand for Government securities from other quarters, rather than liquidation of investments by the banks on their own initiative, as the market for Government securities of practically all maturities was generally strong during July. Yields on long term Treasury bonds, and on medium term bonds and Treasury notes, declined in July to the lowest levels since the early part of March.

Total holdings of Government securities in the reporting New York City banks dropped below the volume held prior to the sale of Treasury notes on June 15 and more than \$900,000,000 below the amount held a year ago, reaching the lowest level since December 1934. In other principal cities, the Government security holdings of the reporting member banks showed only a small reduction in July and remained somewhat above the



Changes in Loans and in Investments of Reporting Banks in New York City and in 100 Other Cities

amount held prior to June 15, but on July 21 were approximately \$450,000,000 less than at the high point of last January.

Loans on securities were reduced considerably in July, thus canceling a substantial part of the increase that occurred in June in connection with the flotation of a large volume of Government and other securities, and in the latter part of the month showed no great increase compared with a year ago.

On the whole, the total volume of credit extended by the principal member banks has shown little net change during the past year, the large reductions in Government security holdings having been practically offset by the expansion in commercial and industrial loans. The change in the composition of bank assets during the past year, which is shown in the preceding diagrams, is characteristic of the later stages of recovery from a severe depression. Periods of severe decline in business are usually attended by liquidation of bank loans, which frequently continues for some time after an upturn in business begins, due to the gradual collection or writing off of loans that became frozen during the depression. The first expansion in bank credit tends to occur in investments. These tendencies were accentuated during the recent depression by the unusual severity of the fall in the volume of business and the unusual scope of Government activities for relief of the unemployed and to promote recovery. In the reporting New York City member banks, the proportion of loans to total loans and investments dropped from 80 per cent in October 1929 to about 50 per cent by October 1932, owing chiefly to a drastic shrinkage in the volume of loans, and continued downward during the period of heavy Government security purchases, reaching a low point of 36 per cent at the beginning of July 1936. In 100 other principal cities throughout the country the percentage of loans to total loans and investments declined from 76 per cent in November 1929 to a low point of about 37½ per cent in July 1936. While the long term tendency for a number of years has been toward a decline in the proportion of bank assets in the form of loans and an increase in the proportion in the form of investments, the extent of the shift during these years was unprecedented.

The more advanced stages of business recovery tend to be accompanied by a renewed demand from agriculture, commerce, and industry for short and intermediate term loans, and by a leveling off, or even a decline, in the volume of bank investments. The developments in bank credit that have occurred during the past year reflect this recovery trend toward increased importance in bank assets of business loans of relatively short maturity. In the large New York City banks the percentage of loans to total loans and investments has now risen to approximately 47½ per cent, due partly to the rapid expansion in business borrowing, and partly to the reduction in holdings of Government securities, and in reporting banks in other cities the percentage of loans has risen to 42 per cent.

#### EXCESS RESERVES AND MONEY RATES

At the end of June and in the first few days of July the excess reserves of New York City banks were rapidly depleted by month-end and holiday withdrawals of currency from the banks and by a heavy outflow of funds to other districts. The total excess reserves of 21 principal New York City banks dropped from a maximum of \$280,000,000 on June 26 to a low point of \$106,000,000 on July 2, and some of the banks found it necessary to borrow a small amount of reserves through purchases of "Federal funds" in order to maintain their reserves at the required levels. The only reflection in money market conditions of this rapid reduction, however, appeared in a slight and temporary decline in the prices paid for new issues of Treasury bills. During the remainder of the month excess reserves of the large New York City banks rose fairly rapidly, averaging more than \$200,000,000 during the latter half of the month, and money market conditions became progressively easier. Fluctuations in excess reserves of all other member banks were much narrower, no doubt owing in part to the temporary withdrawals of funds from New York early in the month, and, except on the first two days of the month, the volume of excess reserves in all member banks ranged between about \$840,000,000 and a maximum of approximately \$975,000,000.

For the month as a whole the principal changes in money rates were the declines in yields on United States Government obligations previously commented upon.

Money Rates in New York

	July 31, 1936	June 30, 1937	July 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.....	3/16	7/16	7/16
Customers' rates on commercial loans (Average rate of leading banks at middle of month).....	1.63	1.67	1.67
Treasury securities:			
Maturing February 1938 (yield)....	....	0.32	0.05
Average yield on Treasury notes (1-5 years).....	0.76	1.31	1.14
Average yield on Treasury bonds (more than 5 years to earliest call date)....	2.32	2.54	2.41
Average rate on latest Treasury bill sale 273 day issue.....	0.22	0.62	0.49
Federal Reserve Bank of New York re- discount rate.....	1½	1½	1½
Federal Reserve Bank of New York buying rate for 90 day indorsed bills..	½	½	½

\* Nominal

#### GOVERNMENT SECURITIES

All divisions of the Government security market were firm during July. Demand for various Government obligations was moderately active and, in the case of short term securities, included the investment of some foreign funds. The average price of Treasury bonds not due or callable within five years, which had dropped about ⅓ of a point in June, rose about one point in July, reaching the highest level since the middle of March. This advance carried the yield on these obligations down to 2.41 per cent as compared with the April 1 high of 2.70 per cent and the year's low on January 2 of 2.13 per cent. An advance in Treasury notes of more than one year maturity reduced the average yield on these obligations by about 1/6 of 1 per cent. The rate at

which Treasury bills were sold on tender also declined in July, in part perhaps reflecting the attractiveness of April 1937 maturities to investors in the Chicago area. The issue of 273 day bills sold on July 26 went at an average rate of 0.485 per cent as compared with 0.619 per cent on the last similar issue of June. In addition to four regular weekly issues of \$50,000,000 of 273 day bills, the Treasury resumed on July 14 its practice of issuing bills to mature in the next tax period. A total of \$100,000,000 of such bills was put out on July 14 and 21, to mature December 16, 1937, and \$50,000,000 of bills were put out on July 28 to mature December 17. These tax period bills were allotted at average rates ranging from 0.419 on the July 14 issue, to 0.372 per cent on the July 28 issue. As the 273 day bill issues of the month replaced similar maturities, the only increase in the Government debt from July Treasury bill financing was the \$150,000,000 of tax period bills.

#### BILLS AND COMMERCIAL PAPER

Trading in the bill market was very quiet during July. A continued active demand for bankers acceptances was reported, while the supply of bills remained limited. Dealers' portfolios, therefore, continued at minimum levels. No change occurred in rates, offering quotations of dealers being 7/16 per cent for 1 to 90 day maturities, 1/2 per cent for 4 month bills, and 9/16 per cent for 5 and 6 month acceptances.

In accordance with the usual experience, a decline occurred in bills outstanding during June. This decline, amounting to \$22,000,000, reflected chiefly decreases of \$11,000,000 in import bills, \$6,000,000 in domestic warehouse bills, and \$4,000,000 in export bills. As has been the case in each month since January, however, the total volume of bills outstanding at the end of June was larger than a year previous. The proportion of outstanding bills held by accepting banks and bankers declined slightly further to 75 per cent.

(Millions of dollars)

Type of Acceptance	June 30, 1936	May 31, 1937	June 30, 1937
Import.....	107	168	157
Export.....	74	81	77
Domestic shipment.....	9	13	13
Domestic warehouse credit.....	40	48	42
Dollar exchange.....	1	1	1
Based on goods stored in or shipped between foreign countries.....	85	75	74
Total.....	316	386	364

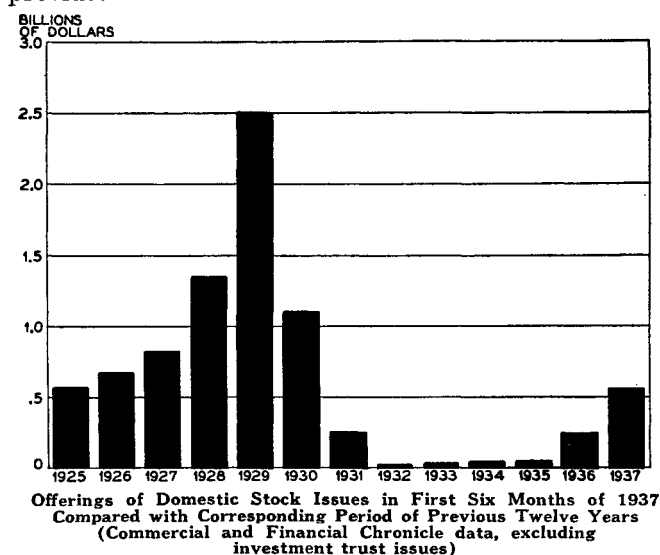
Commercial borrowers, especially those engaged in enterprises associated with the movement of grain crops, were reported to have increased their drawings of new paper during July. The new acquisitions of paper by dealers moved readily into bank portfolios, demonstrating the continued existence of an active demand for business notes. The rate structure of the commercial paper market held at the levels previously reported, average grade prime four to six month paper ruling at 1 per cent.

Commercial paper dealers reported a total of \$284,600,000 of paper outstanding at the end of June. A month ago the amount was \$286,900,000, and a year ago the figure was \$168,700,000.

#### New Financing

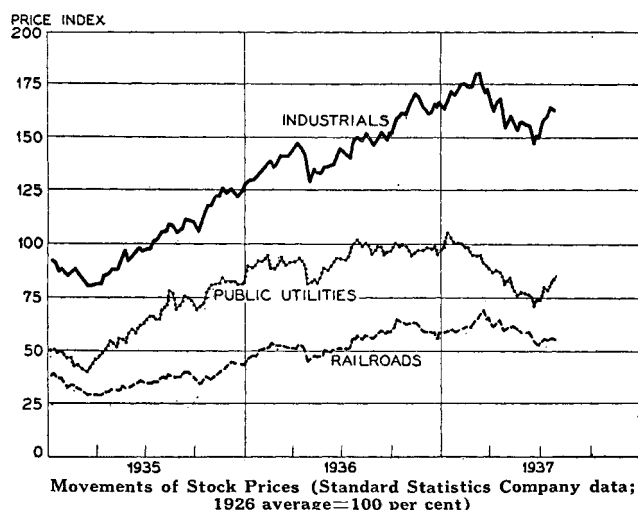
The volume of new security issues during July was approximately \$330,000,000, an amount about half that of June, but more than in May. Grouped according to the nature of the borrowing enterprise, the largest part of the past month's total was accounted for by issues of State, municipal, and farm loan agencies, the aggregate of which was approximately \$200,000,000, an amount nearly as large as in the preceding month. Corporate issues, totaling approximately \$130,000,000, were only about 30 per cent of the previous month's volume.

One feature of the new financing by corporations during recent months has been the increasing proportion in the form of stock issues. As the accompanying diagram shows, the volume of new stock issues during the first six months of 1937 was almost two and a half times as large as in the corresponding period of 1936 and several times the volume in the first half of the years 1932-1935 inclusive. The amount remained far below the levels of years such as 1928 and 1929, but was not much below the volume in years such as 1925 and 1926. About half of the funds obtained through stock issues this year have been for refunding purposes, but a substantial amount of new capital for borrowing enterprises has also been provided.



#### Security Markets

Following declines in the previous four months, stock prices generally showed some recovery during July. The largest advance from the recent low points which were reached near the end of June was in industrial shares, which on the average rose 10.2 per cent. The public utility group rose 5.8 per cent, and railroad stocks 17.2 per cent. As the following diagram indicates, industrial stocks during July recovered slightly more than one-half of the decline between March and June, and public utility shares recovered nearly one-half of the decline from the year's high which was reached in January, while railroad shares recovered only about one-fourth of the decline between March and June. The volume of trading on the Stock Exchange was slightly larger than in June. Average daily sales amounted to



950,000 shares as compared with an average of 700,000 shares in June.

Domestic corporation bond prices also moved toward higher levels during July. For the high grade bonds this advance represented a further recovery from the April lows, while for the medium grade bonds the advance represented some recovery of the ground lost in June. The advance in high grade bonds carried through to the end of July, at which time the average yield on bonds rated Aaa by Moody's Investors Service was 3.23 per cent, as compared with 3.29 at the end of June, 3.48 per cent at the high point of April, and 3.07 per cent at the low point of recent years which was reached in January. The movement of medium grade bonds became somewhat irregular during the latter part of the month, but nevertheless a net advance was shown for the period as a whole, and near the end of the month Baa bonds yielded on the average 5.01 per cent, as compared with 5.12 per cent at the end of June and the January low of 4.46 per cent. High grade municipal bonds also made further recovery in July.

## Foreign Exchanges

The temporary moratorium decreed by the French Government on commitments payable in gold or foreign currencies, which had been in effect on June 29 and 30, was lifted on July 1 after the new Cabinet had received parliamentary authorization to exercise emergency decree powers for a period of two months. Pursuant to this authorization, the Government abrogated the limits of franc devaluation established by the monetary legislation of October 1, 1936, and, with the resumption of trading in French exchange on July 1, closing quotations for the franc on that day were \$0.0384 in this market and 128 $\frac{7}{8}$  francs per pound in London, representing a depreciation of about 12 per cent from the lower limit of devaluation previously in effect and a total decline of 42 per cent from the 1928-1936 gold parity. Consequently the decrease in the market value of the franc in terms of gold corresponded fairly closely to the reductions previously effected in the dollar and the pound, with the result that the exchange relationship among these three currencies became reestablished at a level not far from that which had prevailed prior to the series of currency realignments

which began with Great Britain's suspension of gold payments in September 1931.

The further depreciation of French exchange was followed at once by a considerable movement of funds to Paris from abroad, reflecting principally a covering, at the new and profitable levels, of some of the most volatile speculative positions in French exchange. It is generally believed that the French Stabilization Fund, in intervening to supply the market's requirements for francs, acquired a considerable amount of gold and foreign currencies during the first half of July. The franc rose slightly in this market to a high of \$0.0388 $\frac{1}{2}$  on the 13th. Shortly thereafter, however, the flow of funds to France associated with short covering subsided rather abruptly, and franc quotations developed a more irregular tendency in a comparatively inactive market. A low of \$0.0371 $\frac{1}{4}$  was reached in New York on the morning of July 22, but the market became moderately firmer towards the end of the month and the closing rate on the 29th was \$0.0375.

Accompanying the further realignment of French exchange, the Government undertook a series of measures pursuant to its decree powers to meet the strained financial position of the Treasury. Its overdraft facilities with the Bank of France were increased by 15,000,000,000 francs; provision was made for revaluation of the gold reserves of the Bank of France to conform to the lower limit of franc devaluation previously in effect, and for setting aside the franc proceeds of such revaluation in a special fund to support the rente market; finally, steps were taken to increase Treasury revenues and to reduce extraordinary outlays.

The sterling-dollar rate, after fluctuating within an exceedingly narrow range in May and June, showed a further advance during the past month, thus resuming the upward movement which had been evident in April. In the latter part of July sterling was quoted in this market in the neighborhood of from \$4.97 to \$4.98 as compared with \$4.93 $\frac{5}{8}$  at the end of June, and with \$4.88 $\frac{1}{2}$  early in April. The past month's rise was ascribable in considerable part to the utilization by Japanese banks of a substantial portion of the dollar proceeds of gold shipments from Japan to this country to purchase sterling exchange. In addition, unconfirmed market rumors to the effect that conversations were taking place between the United States and French fiscal authorities looking towards an interchange of information regarding the ownership of assets by their respective nationals in the other's market may have induced small transfers of French funds from New York to London. The demand for sterling arising from these two sources was chiefly responsible for the upward movement in the rate.

This movement led, in turn, to private purchases of dollars against sterling in anticipation of future commercial requirements. Owing to the comparative narrowness of the fluctuations in the dollar-sterling relationship over the past two or three years, commercial concerns having dollar requirements to cover against sterling customarily time their purchases of dollars to coincide with periods of temporary firmness in the pound. Moreover, commercial requirements for dollars to pay for autumn exports from the United States appear to be considerably heavier than in other recent years. For these reasons an upward rate movement in sterling of about one per cent during

July led to a substantially increased anticipatory commercial demand for dollar exchange. This demand operated principally through the forward market, and the premium on forward dollars in London therefore remained at a sufficiently high level to make it relatively remunerative for British banks to increase their New York balances against sales of forward dollars to commercial customers. During the past two years at least, forward operations in the dollar-sterling market undertaken at the initiative of commercial concerns and others, and the resulting flow of bank balances between New York and London, have been a growingly important influence in narrowing the range of movement in the dollar-sterling rate.

With the advance in sterling, the Netherlands monetary authorities reduced their buying price for dollars on several occasions during July, and the guilder quotation in this market advanced from \$0.5491 at the end of June to \$0.5529½ on July 22. The rate thereafter reacted slightly, however, closing at \$0.5515 on the 29th. The Swiss franc also showed a small net advance during the month, while the Belgian monetary unit held close to its estimated gold shipping point from Antwerp to New York.

### Gold Movement

During June the movement of gold to the United States continued in moderately large volume, although substantially less than in the previous month. Imports affecting the monetary gold stock totaled \$116,200,000, of which \$49,400,000 from England, \$6,700,000 from Canada, \$5,500,000 from India, \$3,100,000 from Holland, \$2,300,000 from France, and \$1,200,000 from Switzerland arrived at New York, and on the West Coast \$44,600,000 was received from Japan, \$3,200,000 from Australia, and \$200,000 from Hongkong.

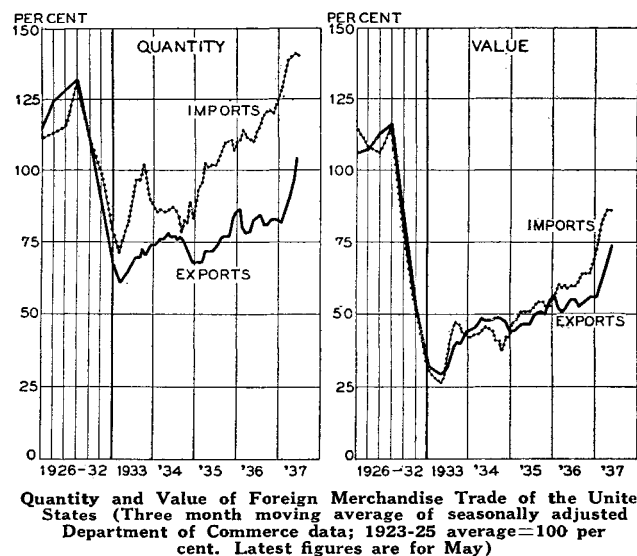
These imports together with approximately \$1,500,000 of gold released from foreign account earmarkings and net receipts from other sources, resulted in an increase of about \$140,000,000 in the monetary gold stock of this country during the month. The Treasury's daily statement of July 27 showed \$1,201,400,000 of "inactive gold" held in the general fund.

### Central Bank Rate Changes

Effective July 7 the discount rate of the Bank of France, and its rate for thirty day advances on short term Government securities, were lowered from 6 to 5 per cent, the rate for three months' advances being reduced simultaneously from 7 to 6 per cent. The higher rates had been in force since June 15, 1937. Effective July 15 the discount rate of the Bank of Japan was lowered from 9 rin per 100 yen per diem to 8 rin, equivalent to a reduction from 3.285 per cent to 2.92 per cent per annum.

### Foreign Trade

The greater recovery in merchandise imports into the United States than in exports since the low point of the depression was reached in 1933 is indicated in the accompanying diagram, which is based on Department of Commerce data, adjusted for seasonal variations and with some of the temporary irregularities eliminated. Recent



sizable increases in the volume of exports, following no gain for almost a year, have raised the index of the quantity of exports to a figure nearly 70 per cent above the 1933 low, but it remains more than 20 per cent below the 1929 level. Meanwhile, according to these data, the quantity of imports has increased to a level approximately double the 1933 low figure and somewhat above the 1929 volume. The greater gain in the quantity of imports than in exports has been continuously evident since the middle of 1934. During the past three years, smaller crops in this country and industrial recovery have resulted in reduced exportable surpluses of farm products and larger requirements for foreign raw materials.

The value of exports recently has risen to a level about two and a half times the 1933 low but 36 per cent below 1929, while the value of imports has increased threefold since 1933, and is less than 25 per cent below 1929. The result has been an excess of imports for most of the recent months. The divergence between the recovery of exports and of imports is less marked in the value figures than in the quantity series, due to the relatively higher level of prices of exported commodities than of imported commodities.

Among the major groups of commodities entering this country's foreign trade, decreases to almost negligible amounts have occurred in recent years in the quantity of crude and manufactured foodstuffs exported, in contrast to unusual increases in imports of foodstuffs, consisting of such commodities as coffee, sugar, meat, and, to some extent, grain products. Likewise, in the case of crude materials, the volume exported has remained less than in 1923-25, while the quantity imported has recently been about one-fourth larger. These two groups of products account for most of the greater recovery in total imports than exports. The volume of exports of partly and wholly finished manufactures, on the other hand, has increased more than imports of this type of goods.

### Building

Following a temporary setback in May, the daily rate of construction contract awards in the 37 States covered by the F. W. Dodge Corporation report increased 25

per cent in June. The aggregate value of contracts placed in June was higher than in any previous month of the recovery period, exceeding \$300,000,000 for the first time in six years. Each of the major building and engineering classifications shared in the advance over the preceding month. The public utilities group, stimulated by exceptionally large awards for electric light, power plant, and railroad construction, showed the most pronounced gain.

Compared with June 1936 also, marked improvement was recorded in all classifications except public works, as is indicated in the following table.

Percentage Change in Average Daily Contracts

	N.Y. and Northern N.J.		37 States	
	June 1937 compared with		June 1937 compared with	
	May 1937	June 1936	May 1937	June 1936
<b>Building</b>				
Residential.....	+ 1	+ 11	+ 7	+ 27
Commercial and factory.....	+ 72	+180	+ 33	+ 91
Public purpose*.....	- 24	+ 45	+ 25	+ 36
All building.....	0	+ 44	+ 18	+ 43
<b>Engineering</b>				
Public works.....	+ 16	+ 17	+ 20	- 1
Public utilities.....	+156	+616	+167	+223
All engineering.....	+ 44	+ 67	+ 44	+ 25
All construction.....	+ 12	+ 51	+ 25	+ 37

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

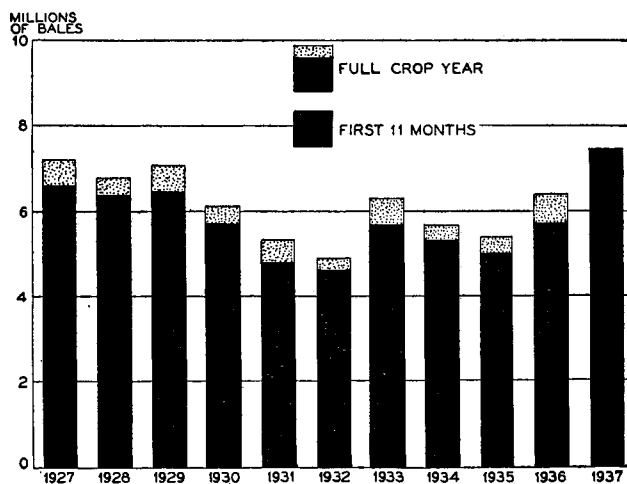
As the figures in this table show, the June increase over last year in the average daily volume of contracts was somewhat larger in the New York and Northern New Jersey area than in the other sections of the country covered by the reports, owing chiefly to an unusually large increase in the volume of public utility construction contracts.

Data for the first half of July indicate the maintenance of the June rate for total construction contracts in the 37 States. A large contraseasonal gain was reported in contracts for heavy engineering projects, but offsetting losses occurred in other types of construction.

## Production

As is ordinarily expected at this time of the year, activity in many lines of industry declined from June to July. A recession was shown in the volume of automobile assemblies, chiefly because of vacation shutdowns, and some seasonal reduction in cotton textile mill activity was reported. On the other hand, steel production, which had been handicapped by strikes during June, increased, although the level did not reach that of May, owing largely to a seasonal decline in the volume of new orders. Electric power generation was well maintained during July, and output of bituminous coal increased somewhat.

The seasonally adjusted index of industrial production of the Board of Governors of the Federal Reserve System declined in June to 115 per cent of the 1923-25 average, after having stood at 118 for three months, but remained well above the June 1936 index of 104. Labor difficulties affecting four important companies reduced steel output by 16 per cent, and pig iron production, lead output, and zinc smelting operations were lower. Automobile assemblies declined, as in most other years, and there was also seasonal contraction in cotton textile mill operations



Mill Consumption of Cotton in Eleven Months of the 1936-1937 Crop Year Compared with Previous Ten Years (Department of Commerce data for years beginning with August and ending with July; latest figures are for July 1936 to June 1937)

during June. In the meat packing industry, activity was maintained at about the May level, and copper production and bituminous coal output advanced. Machine tool orders, while lower than in May, remained at a level considerably in excess of a year ago.

Cotton textile production, as measured by mill consumption of cotton, has reached a new record level during the crop year just closing. As the accompanying diagram shows, cotton consumption in the first eleven months of the past year was 2 per cent greater than during the entire year 1926-27, the largest previously on record, and was 11 per cent larger than during the first eleven months of that year. Compared with the corresponding period of the crop year ended July 31, 1936, the current crop year has shown an increase of 28 per cent.

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

	1936	1937		
	June	April	May	June
<b>Metals</b>				
Pig iron r.....	80	105	101	95
Steel r.....	91	104	105	94
Copper.....	68	101	111	117
Lead r.....	64	77	65	63
Zinc r.....	89	98	104	99
<b>Automobiles</b>				
Passenger cars.....	92	95	102	96p
Motor trucks r.....	109	107	117	112p
<b>Fuels</b>				
Bituminous coal.....	80	77	84	87p
Anthracite coal.....	95r	130	86	100p
Petroleum, crude.....	86	98	98	96p
Petroleum products.....	86	90	91	
Electric power.....	91	94	96	97p
<b>Textiles and Leather Products</b>				
Cotton consumption r.....	95	115	116	116
Wool consumption.....	102r	122	125	
Silk consumption r.....	69	82	78	78
Rayon production r.....	90	98	96	104
Shoes.....	99	124	124p	121p
<b>Food and Tobacco Products</b>				
Meat packing.....	84	86	74	76
Wheat flour.....	89	88	80	86
Tobacco products.....	83	91	86	82
<b>Miscellaneous</b>				
Cement r.....	57	71	63	
Lumber.....	67	69	74	
Newsprint paper.....	81	82	81	80p
Machine tools.....	118	251	198	171

p Preliminary r Revised

## Indexes of Business Activity

The data now available on the distribution of goods in July show no consistent change from June. Merchandise and miscellaneous freight car loadings in the first 17 days of the month were practically unchanged from the June rate, while shipments of bulk commodities were somewhat higher. On the other hand, department store sales reported to this bank by stores in New York City and Northern New Jersey showed more than the usual seasonal recession from June.

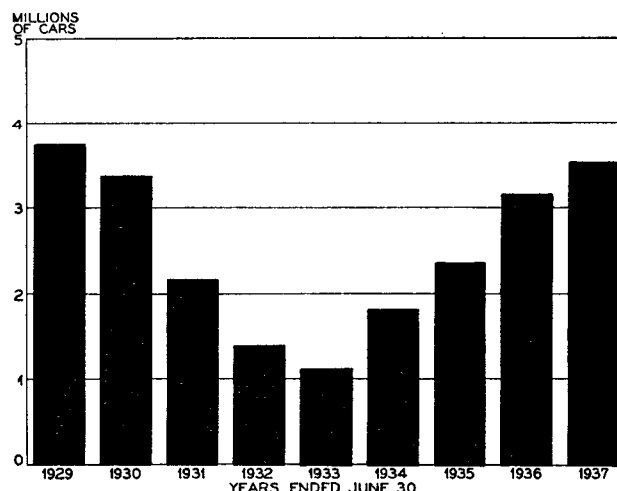
Some reduction appears to have occurred from May to June in the level of general business activity and the distribution of goods. Registrations of new passenger cars for June are estimated at 325,000 units, a reduction of 67,000 units from the May estimate, which is considerably more than the usual seasonal decline. Merchandise and miscellaneous freight car loadings were lower than in the previous month, and less than the usual seasonal increase occurred in shipments of bulk commodities. Retail distribution of goods in general showed little change, after seasonal adjustment, and about the usual gains were shown in the volume of check transactions throughout the country and in sales of new ordinary life insurance policies.

The accompanying diagram shows the number of new passenger cars registered in the United States for the years ended June 30 from 1929 to 1937. A steady recovery has occurred since 1932-33 when registrations were 70 per cent less than in 1928-29, although the gain during the past year was reduced by labor difficulties. Passenger car registrations in 1936-37 totaled approximately 3½ millions, which is over three times the number in 1932-33, 12 per cent more than in 1935-36, and only 6 per cent less than in the record year 1928-29.

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

	1936	1937		
	June	April	May	June
<b>Primary Distribution</b>				
Car loadings, merchandise and misc. ....	71	79	78	76
Car loadings, other. ....	76	88	90	87
Exports. ....	67	84	93	
Imports. ....	86	104	108	
<b>Distribution to Consumer</b>				
Department store sales, U. S. r. ....	91	90	92	92
Department store sales, 2nd Dist. ....	87	85	88	86
Chain grocery sales. ....	71	64	62r	62
Other chain store sales. ....	99	88	98	97
Mail order house sales. ....	97	102	105	100
Advertising. ....	76	83	82	80
New passenger car registrations. ....	101	96	98p	87p
Gasoline consumption. ....	93	101	96	
<b>General Business Activity</b>				
Bank debits, outside New York City. ....	67	67	67	66p
Bank debits, New York City. ....	43	36r	35	36p
Velocity of demand deposits, outside New York City. ....	70	69	70	68
Velocity of demand deposits, New York City. ....	50	45	42	43
New life insurance sales. ....	75	74	74p	74p
Employment, manufacturing, U. S. ....	92	103	104	103p
Employee hours, manufacturing, U. S. ....	83	96	96	95p
New corporations formed in N. Y. State. ....	67	72	65	63
Residential building contracts. ....	32	37	29	35
Nonresidential building and engineering contracts. ....	54	51	51	65
General price level*. ....	152	162	162	162p
Composite index of wages*. ....	191	204	205	207p
Cost of living* r. ....	146	151	152	152p

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



Passenger Car Registrations for Year Ended June 1937 and Eight Previous Years (June 1937 estimated)

## Employment and Payrolls

Following an almost unbroken succession of monthly increases since the early part of 1936, employment and payrolls in the combined manufacturing and nonmanufacturing industries reporting to the Bureau of Labor Statistics declined slightly from the middle of May to the middle of June. According to estimates by the Secretary of Labor, however, nearly 1,400,000 workers have been returned to employment in these industries since June 1936 and weekly payrolls have increased approximately \$67,000,000.

The June downturn was entirely accounted for by reductions in number of workers and in weekly payrolls in the steel industry caused largely by the strike, both employment and payrolls showing increases from May to June in the majority of other industries. The level of factory employment was 12 per cent above that of a year ago, and factory payrolls were 27 per cent higher.

New York State factory employment and payrolls remained virtually unchanged from the middle of March to the middle of June despite labor difficulties in some industries during the latter part of this period. From mid-May to mid-June a decline in most of the clothing groups, owing to seasonal slackness, was largely offset by seasonal gains in the food groups, notably at canning and preserving factories. The number of factory workers employed in June was 16 per cent greater than in June 1936.

## Commodity Prices

The upward movement in prices of the principal basic commodities, which began about the middle of June, continued during the first half of July, but this advance was largely canceled in the latter part of the month.

Agricultural products, which are extremely sensitive to new crop developments at this time of year, showed the largest fluctuations during July. Reflecting in part continued reports of black rust damage to the domestic spring wheat crop and drought conditions in the Canadian area, the cash quotation for the Number 1 grade of wheat at Minneapolis rose on July 16 to \$1.58½ a bushel,



the highest price since last April, but during the remainder of the month the price declined to \$1.44½, slightly lower than at the end of June. Similar movements were shown in future contracts for wheat. Cash corn, growing conditions for which were favorable during the month, declined 30 cents to \$.97¼ a bushel during July. Sizeable advances, however, were shown in the prices of livestock during July, the average price of hogs reaching the highest level since September 1928, and the average price of steers establishing a new high since March 1930. Raw silk rose to \$2.03½ a pound on July 9, but subsequently receded to \$1.87½ or 4 cents below the end of June price. Spot cotton rose to 13.05 cents a pound during the early part of July, but reflecting reports of favorable weather conditions in the latter part of July, declined subsequently to close the month at 11.21 cents, or 133 points below a month ago. A decline of 1 cent a pound in the spot price of rubber reflected unusually large Malayan production.

In the metals group, the price of scrap steel at Pittsburgh rose \$2.50 to \$20.75 a ton, compared with the March high of \$23.75, and moderate advances were shown in the prices of tin and zinc. Copper, lead, and silver continued at previously quoted levels.

### Department Store Trade

During the first half of July, total sales of the reporting department stores in the Metropolitan area of New York were 3.5 per cent higher than in the corresponding period of last year, but more than the usual seasonal decline from June was indicated.

In June total sales of the reporting department stores in this district were 6.2 per cent higher than last year, a somewhat smaller increase than that shown in May, but after allowing for differences in the number of shopping days between this year and last, the increase in average daily sales was slightly larger than in May. Reporting stores in Buffalo, Syracuse, Northern New Jersey, Southern New York State, Hudson River Valley District, and the Capital District, recorded larger advances in average daily sales than in the past two to four months, but department stores located in New York and Brooklyn, Rochester, Bridgeport, Central New York State, and Niagara Falls, reported smaller gains in sales than in May, and sales of stores in the Northern New York State territory and in Westchester and Stamford also compared less favorably with a year ago in June than in the previous month. Sales of the leading apparel stores in this district were 5.6 per cent higher than last year, and on an average daily basis the increase was larger than in the two previous months.

During the first half of 1937, total sales of the reporting department stores in this district were 7.4 per cent higher than in the corresponding period of last year, as compared with an increase of 8.9 per cent between the first half of 1935 and 1936.

Department store stocks of merchandise on hand at the end of June were substantially higher than last year, while apparel store stocks were only slightly higher. Collections were lower this year than last in the department stores, but were slightly better in the apparel stores.

Locality	Percentage change from a year ago			Per cent of accounts outstanding May 31 collected in June	
	Net sales		Stock on hand end of month	1936	1937
	June	Jan. to June			
New York.....	+ 5.5	+ 6.6	+20.9	52.8	50.6
Buffalo.....	+ 7.4	+12.0	+16.9	50.2	48.8
Rochester.....	+ 4.4	+ 8.2	+14.4	51.0	50.8
Syracuse.....	+14.0	+11.8	+13.0	42.1	42.6
Northern New Jersey.....	+ 8.2	+ 9.5	+18.2	45.3	45.2
Bridgeport.....	+ 6.4	+10.8	+ 8.3	41.7	41.9
Elsewhere.....	+ 5.4	+ 5.8	- 1.0	36.6	36.7
Northern New York State.....	- 3.7	- 0.9	.....	.....	.....
Southern New York State.....	+ 7.6	+ 7.1	.....	.....	.....
Central New York State.....	+ 5.5	+ 9.0	.....	.....	.....
Hudson River Valley District.....	+12.1	+ 8.4	.....	.....	.....
Capital District.....	+ 2.4	+ 4.4	.....	.....	.....
Westchester and Stamford.....	- 0.1	- 1.2	.....	.....	.....
Niagara Falls.....	+ 6.6	+10.2	.....	.....	.....
All department stores.....	+ 6.2	+ 7.4	+18.8	49.2	47.9
Apparel stores.....	+ 5.6	+ 6.6	+ 1.4	44.8	45.0

### Wholesale Trade

In June total sales of the reporting wholesale firms in this district averaged 9.7 per cent higher than last year, the smallest increase since last November. The jewelry concerns recorded the smallest advance in sales since January 1936, and the gain in diamond sales, while substantial, was much below the very large increases reported for several preceding months. Sales of the stationery concerns also showed a smaller gain than in the past few months, and the sales comparisons of the shoe and men's clothing firms were not as favorable as in May. The grocery and drug concerns, however, registered slightly larger advances than in the previous month, and the cotton goods firms reported a smaller decrease in sales than in May. Sales of the hardware concerns, and yardage sales of silk goods reported by the National Federation of Textiles, showed larger increases than in the past two or three months, and the paper firms recorded the most substantial advance in sales since December 1936.

For the first six months of 1937, total sales of the reporting wholesale concerns in this district averaged 13.6 per cent higher than in the corresponding period of 1936, as compared with an increase of 8.4 per cent between the first half of 1935 and 1936.

Commodity	Percentage change June 1937 compared with June 1936		Per cent of accounts outstanding May 31 collected in June		Percentage change in net sales
	Net sales	Stock end of month			First six mos. 1937 from 1936
			1936	1937	
Groceries.....	+12.6	+25.6	89.5	90.3	+12.0
Men's clothing.....	+12.4		48.4	44.4	+10.5
Cotton goods.....	— 2.5		44.4	45.4	+ 3.7
Rayon and silk goods.....	+41.2*		65.0	54.1	+25.8*
Shoes.....	— 1.4		43.0	39.4	+13.2
Drugs and drug sundries.....	+ 4.0**	+13.8**			+ 4.9**
Hardware.....	+ 9.2	+15.0	48.4	45.7	+11.4
Stationery.....	+10.0				+ 7.5
Paper.....	+27.6		51.8	53.6	+20.1
Diamonds.....	+25.4	+66.3	28.5	28.4	+89.6
Jewelry.....	+ 6.1	+ 0.8			+26.7
Weighted average....	+ 9.7	.....	60.9	58.5	+13.6

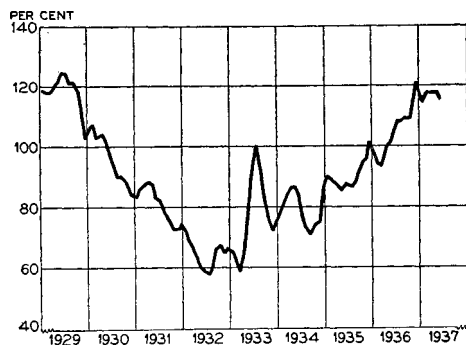
\* Quantity figures reported by the National Federation of Textiles, Incorporated, not included in weighted average for total wholesale trade.

\*\* Reported by Department of Commerce.

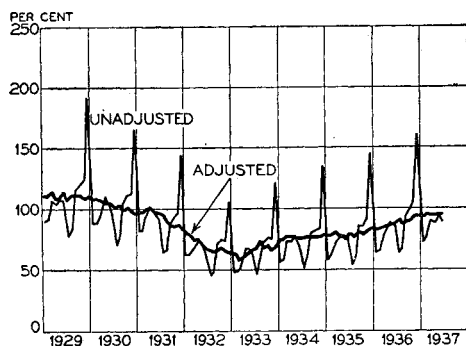


# FEDERAL RESERVE BANK OF NEW YORK

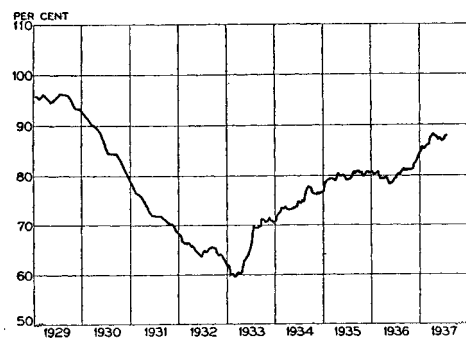
MONTHLY REVIEW, AUGUST 1, 1937



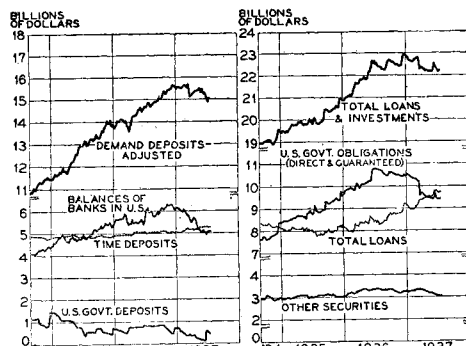
Index Number of Production of Manufactures and Minerals Combined, Adjusted for Seasonal Variation (1923-25 average = 100 per cent)



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



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



Wednesday Figures for Reporting Member Banks (Latest figures are for July 21)

## Business Conditions in the United States

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

**A**CTIVITY in most manufacturing industries and at mines continued in June at the May level, with allowance for seasonal influences, but the total output was decreased by labor difficulties in steel mills. In July, production at these mills increased.

### PRODUCTION AND EMPLOYMENT

Volume of industrial output, as measured by the Board's seasonally adjusted index, was 115 per cent of the 1923-1925 average in June as compared with 118 per cent maintained in the preceding three months. The decrease was largely accounted for by the decline in steel production. Automobile production declined seasonally and lumber output showed little change. There was considerable reduction in activity at shoe factories and at sugar refineries, while textile production was close to the level of other recent months. At mines output continued in about the same volume as in May.

Value of construction contracts awarded, which had declined in May, increased considerably in June, according to figures of the F. W. Dodge Corporation. There was a marked rise in contracts for public projects, and awards for private building increased somewhat, reflecting chiefly a larger volume of contracts for factories and for apartments.

Factory employment and payrolls declined more than seasonally from the middle of May to the middle of June, largely as a result of strikes in the iron and steel industry. In most other manufacturing industries and also in non-manufacturing lines changes in employment were chiefly of a seasonal nature.

### AGRICULTURE

The July 1 cotton report of the Department of Agriculture showed an acreage of 34,192,000, which is larger than in any year since 1933, but considerably smaller than the average of 41,424,000 acres for the five years 1928-1932. Reports on other major crops indicate larger production than last season and about equal to the average for 1928-1932.

### DISTRIBUTION

Distribution of commodities to consumers was maintained in June at the level of other recent months, with allowance for seasonal influences. Department store sales showed a seasonal decline and there was little change in mail order business. Sales at variety stores increased somewhat. Department store trade in the midwestern industrial area in June and in the first half of the year showed larger increases over a year ago than did sales in other parts of the country.

Freight car loadings declined somewhat further in June, reflecting largely a decrease in shipments of miscellaneous freight.

### WHOLESALE COMMODITY PRICES

The general level of wholesale commodity prices, which had declined gradually from the beginning of April to the middle of June, advanced somewhat after that time. Prices of hogs and pork rose considerably and grain prices advanced during most of the period. Steel scrap prices increased sharply and prices of tin, zinc, and hides also advanced, while cotton goods and rubber continued downward. In the past week prices for grains declined and cotton prices also moved lower.

### BANK CREDIT

In the four week period ended July 21 the volume of excess reserves of member banks increased from \$810,000,000 to \$870,000,000, owing principally to a decline in the amount of required reserves resulting from a decrease in deposits at member banks in leading cities.

Commercial loans of reporting member banks continued to increase both in New York City and in other leading cities during the five weeks ended July 21. There was a substantial decline in adjusted demand deposits, mostly at New York City banks. This decline corresponded to decreases in holdings of United States Government obligations, following increases at the time of new Treasury note issues at the middle of June, and in holdings of other securities. Loans to brokers and dealers in securities, which increased in June, declined during the first three weeks of July.

### MONEY RATES

Open market rates on Treasury bills and yields on Treasury notes and bonds declined in July to the lowest levels since March.