MONTHLY REVIEW
of Credit and Business Conditions
Second Federal Reserve District

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

Money Market in August

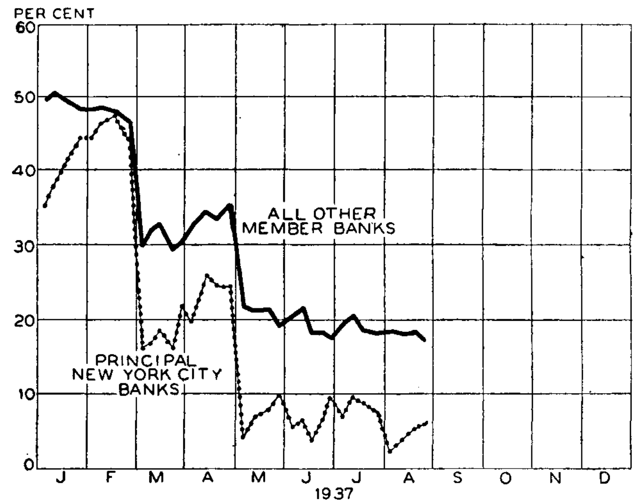
During the last week of July and the first few days of August excess reserves of the New York City banks decreased rapidly, owing to the combined effect of month-end currency requirements, payments for securities sold by the Treasury and by the Government subsidiary corporations, and transfers to other parts of the country, which presumably are related to interest and dividend disbursements by large corporations, as well as to withdrawals by out-of-town banks in connection with their currency requirements. By August 4 excess reserves of the New York banks had dropped below $50,000,000 and there was no material increase during the following week. Subsequently a gradual recovery occurred, and in the latter part of August the volume of excess reserves in New York was about $150,000,000, a figure approximately $100,000,000 less than at the high point in July.

In general, the demands for funds in recent months have fallen more heavily on the New York City banks than on most other member banks. During the spring, banks in other communities drew heavily on their balances with the New York City banks to meet increases in their reserve requirements and other demands for funds. Furthermore, a substantial part of the new securities issued by the Treasury and by Government agencies have continued to be sold in the New York market and a major part of the proceeds used elsewhere. Although such securities for the most part have found their way into investment holdings other than the security portfolios of the New York City banks, payments for them have been made out of New York City deposits, and reductions in the reserves of the New York City banks have resulted.

As the accompanying diagram shows, the ratio of excess reserves to the reserve requirements of 21 large New York City banks has decreased from around 45 per cent at the end of February, to between 2 per cent and 6 per cent in August. Meanwhile, aggregate excess reserves of all other member banks, after dropping from around 50 per cent of reserve requirements early in the year to about 30 per cent after the March 1 increase in reserve requirements, and about 22 per cent after the May 1 increase in requirements, have since held relatively steady at about 18 to 22 per cent of reserve requirements.

With the reduced margin of excess reserves in the combined position of the principal New York banks, the day-to-day movements of funds between banks result from time to time in shortages in the reserves of individual banks. When such shortages occur, the banks are faced with the alternatives of borrowing reserves or liquidating assets. As long as the total volume of excess reserves remains large, the cheapest way for banks that have temporary shortages of reserves to obtain additional amounts is to borrow from banks having substantial excess reserves, through purchases of "Federal funds". During the early part of August, for instance, there were numerous transactions in "Federal funds", mostly between individual New York City banks, but to some extent between New York banks that were short of reserves and banks in other cities which continued to hold large excess reserves. The bulk of such borrowing of reserves was done at a rate of ¼ per cent, although for a short time there were some transactions at ½ per cent.

In addition to the purchase of "Federal funds", the New York City banks have other means of adjusting their reserve position. For example, these banks now hold nearly $200,000,000 of bankers acceptances, and a much larger volume of Treasury bills, some of which could be sold, if necessary, to ease their reserve position. In the years before the banks held large amounts of excess reserves, it was customary for them, during the autumn season, to sell considerable amounts of bankers acceptances directly or indirectly to the Reserve Banks. In this way the banks were temporarily provided with additional reserves. Under present circumstances, bank holdings of Treasury bills also afford some opportunity for such temporary adjustments in reserve positions. During recent months there has been an increased demand for



Excess Reserves of Principal New York City Banks and of All Other Member Banks in the United States, Expressed in Percentages of Required Reserves

Treasury bills on the part of the foreigners having idle funds in this market and, whenever rates have risen, even slightly, on the part of domestic corporations. Distribution of bank holdings of Treasury bills to such investors has the effect of releasing reserves, to the extent that reserve requirements are reduced by reason of the decline in bank deposits which accompanies such sales from bank holdings. Through such transactions as these the New York City banks have access to a considerable volume of funds, which could, if desired, be availed of before it is necessary for them to have recourse to direct borrowing at the Reserve Bank.

In view of the very large amounts of excess reserves that have been held by member banks during the past few years, the amount of member bank borrowing from the Reserve Banks has been of almost negligible proportions, and the discount rates of the Reserve Banks have been of relatively little importance. During much of this period, therefore, they have been left unchanged, while open market rates have declined, so that Reserve Bank discount rates have become out of line with open market rates. More recently, as a result of increased reserve requirements and current and prospective demands for additional credit and currency, a closer adjustment of discount rates to open market rates has attained importance. During the latter part of August, the Federal Reserve Banks of Atlanta, Chicago, Minneapolis, Richmond, and Dallas reduced their discount rates from 2 per cent to 1½ per cent, and, effective August 27, the Federal Reserve Bank of New York reduced its discount rate from 1½ per cent to 1 per cent. In the event that seasonal demands for funds later develop to the point where member banks find it necessary to borrow, temporarily, access to the Reserve Banks will thus be facilitated.

In approving the reductions in the discount rates of the Federal Reserve Banks of Atlanta and Chicago, the Board of Governors of the Federal Reserve System issued the following statement on August 20:

> The Board of Governors today approved the action of the directors of the Federal Reserve Banks at Atlanta and Chicago in reducing the discount rate from 2% to 1½%, effective in the 6th and 7th Federal Reserve Districts, respectively, on August 21, 1937.
>
> The Board's approval was based upon the view that the reduction of discount rates at this time would assist in carrying out the System's policy of monetary ease and make Federal Reserve bank credit readily available to member banks for the accommodation of commerce, business and agriculture, without encouraging member banks to borrow outside of their districts or to liquidate their portfolios in order to be in a position to meet the needs of present or prospective borrowers.
>
> The reduction in discount rates, which have had little or no practical effect during the period when excess reserves were abnormally large and widely distributed throughout the System, brings the rates into closer relation with the interest rate structure generally prevailing, and affords to member banks the benefit of rates, on advances made by the Federal Reserve bank, which are in line with those available in the money market. During the extended period when excess reserves of the banking system were between two and three billions of dollars, the occasion did not arise except in rare instances for member banks to borrow from the Federal Reserve banks, and the discount rates were accordingly inoperative as a practical matter.
>
> As a result of the continued progress of the recovery movement, demands of agriculture, industry and commerce for bank accommodation have steadily increased and at the present time are augmented by seasonal requirements, particularly with relation to crop movements. While excess reserves, following the action of the Board in increasing reserve requirements, remain at an unusually high level of approximately $750,000,000 at present for the System as a whole, they are distributed preponderantly among the country banks and not in the money centers. The reduction of the discount rates in the two large agricultural districts of Atlanta and Chicago should serve to assist the member banks to utilize credit directly available in these districts in order to meet banking requirements in connection with crop movements and business needs.
>
> It is the Board's view, therefore, that at this time the Federal Reserve System can best discharge its public responsibility and promote the continuance of recovery by making it possible for member banks to obtain accommodation from Federal Reserve banks at rates which will encourage them to employ their funds to meet the needs of agriculture, industry and commerce.

One factor in the autumn demand for funds is the seasonal expansion in commercial, industrial, and agricultural loans, which is now well under way. For member banks in the aggregate, however, the expansion in loans results in a depletion of reserves only to the extent that there is a parallel increase in bank deposits and a corresponding increase in reserve requirements. The much more important element in seasonal demands for funds, from the viewpoint of the effect on bank reserves, is the seasonal increase in the amount of currency in circulation. Last year the amount of currency outstanding increased by $557,000,000 between July 29 and December 23 and involved a corresponding drain on bank reserves. About $300,000,000 of the increase occurred between the latter part of November and Christmas and that part of the increase was canceled by the middle of January, so that the effect on bank reserves was quite temporary. During the earlier part of the autumn season the expansion in currency circulation occurs chiefly over the August monthend and Labor Day holiday, and during the first half of October and in November, but the increase is more gradual and usually less in magnitude than the pre-Christmas rise.

Money Rates

Notwithstanding the reduction in excess reserves of the large New York City banks during the early part of August, and the smaller margin of excess which prevailed during the remainder of the month than in preceding months, there was virtually no change in short term money rates except for the temporary rise in the rate for "Federal funds" to ½ per cent on some transactions, previously noted. In fact, the average rates at which Treasury bills maturing during the December tax period were sold were lower during the first two weeks of August than in the latter part of July. In the latter

Money Rates in New York

	Aug. 31, 1936	July 30, 1937	Aug. 30, 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)	1.71	1.67	1.67
Treasury notes: Maturing February 1938 (yield)	....	0.11	0.43
Average yield on Treasury notes (1-5 years)	0.67	1.14	1.36
Average yield on Treasury bonds (more than 5 years to earliest call date)	2.30	2.41	2.55
Average rate on latest Treasury bill sale 273 day issue	0.17	0.49	0.62
Federal Reserve Bank of New York rediscount rate	1½	1½	1
Federal Reserve Bank of New York buying rate for 90 day indorsed bills	½	½	½

* Nominal

part of August, however, the average rates on new issues of Treasury bills advanced to about the same levels as at the end of June and first part of July. Yields on Treasury notes and Treasury bonds also increased enough during the latter part of August to cancel all of the preceding decline in yields since the end of June.

Member Bank Credit

Reports from member banks in the principal cities during recent weeks have continued to indicate a vigorous expansion in business and agricultural loans. During the four weeks ended August 25 the increase for all weekly reporting member banks amounted to approximately $180,000,000, and the increase since the end of June was about $275,000,000, an unusually rapid increase for so early in the season. On the other hand, there has been a further shrinkage in the investment portfolios of the reporting banks, although at a less rapid rate than in the earlier months of this year. While the New York City banks have participated in the expansion of commercial, industrial, and agricultural loans, the reductions in their investments, especially in their holdings of Government securities, have been fairly large, so that their total loans and investments have shown a small reduction during the past month and a more substantial reduction since the end of June. In other principal cities the reporting member banks have made small additions to their holdings of direct Government obligations and Government guaranteed securities which partly offset reductions in other investments, and as a result of a rapid increase in commercial and agricultural loans, their total loans and investments have increased moderately.

Increases in demand deposits resulting from the expansion in bank loans have been more than offset since the middle of the year by purchases by depositors of securities that have come out of bank portfolios, and by some net increase in the amount of currency in circulation. Consequently, the loan expansion thus far has not been accompanied by any drain on the excess reserves of the banks due to increased reserve requirements.

Bills and Commercial Paper

Investment demand for bankers acceptances continued active during August, but due to the small volume of bills being offered to the dealers, the discount market was very quiet. No change occurred in rates, which on the offering side remained at 7/16 per cent for maturities up to 90 days, ½ per cent for 4 month bills, and 9/16 per cent for 5 and 6 month acceptances.

Total outstandings of bankers bills declined approximately $12,000,000 during July, the fifth successive monthly decrease, but continuing the experience since January, the July outstandings remained above the total for a year previous. The decline for July reflected chiefly further decreases of $14,000,000 in import bills, $6,000,000 in export bills, and $3,000,000 in bills based on goods stored in or shipped between foreign countries. Bills arising from domestic warehouse credits, on the other hand, showed an increase for the month, as was the case in July 1936. Accepting banks and bankers held $265,000,000 of the $352,000,000 of bills outstanding on July 31. Approximately $198,000,000 of the accepting bank holdings were in the Second Federal Reserve District.

(Millions of dollars)

Type of acceptance	July 31, 1936	June 30, 1937	July 31, 1937
Import	105	157	143
Export	68	77	71
Domestic shipment	10	13	11
Domestic warehouse credit	47	42	54
Dollar exchange	2	1	2
Based on goods stored in or shipped between foreign countries	84	74	71
Total	316	364	352

New drawings of commercial paper by a diversified list of business concerns continued to enter the open market during August, although in the aggregate the amount was reported to have been not as large as in July. The new acquisitions by dealers were readily distributed into bank portfolios, as there appeared to be no abatement in the active investment demand which has been in existence for some time past. The rate structure of the commercial paper market remained at levels previously current, with the largest part of the sales made at 1 per cent. A total of $325,000,000 of paper was oustanding through reporting commercial paper dealers at the end of July, an increase of $40,000,000 for the month and of $137,000,000 during the past year.

Security Markets

During the first part of August the bond market was firm and prices of all groups advanced slightly further. Beginning around the tenth of the month, however, United States Treasury bonds began to recede, and shortly afterwards corporation bonds also tended to decline. These declines continued through most of the remainder of the month, the average price of Treasury bonds and the highest grade corporation issues receding about 1¼ points, while prices of medium grade corporation issues showed an average decline of approximately 1 point. The quotations for Treasury bonds near the end of August, nevertheless, averaged 1¼ points above the low level reached last April, and the quotations for highest grade corporation issues remained several points above their April lows. Likewise, medium grade corporation bonds remained above their 1937 lows which were touched near the end of June.

The advance in the average yield on Treasury bonds from 2.40 per cent in the first part of August to 2.55 per cent near the close of the month was accompanied by some rise in yields on intermediate and short term Government securities. The yield on 1 to 5 year Treasury notes rose from an average of 1.14 per cent on August 10 to 1.36 per cent on August 30 but remained between ⅛ and ¼ per cent below the April high, and the rates at which the weekly issues of Treasury bills were sold on tender advanced somewhat in the second half of the month. The lowest average rate of the month for 273 day bill sales was 0.459 per cent on the issue sold August 16, but the succeeding week's sale was at 0.524 per cent and the sale of August 30 was at 0.615 per cent. Rates on the bills sold to mature at the December tax period also moved up from 0.211 per cent to 0.422 per cent.

The July advance in stock prices carried somewhat further during the first half of August in the case of industrial and railroad shares. During the second half of the month, however, the movement of all groups of stocks was generally to lower levels, with the result that about two-thirds of the advance in the general level of stock prices between late June and mid-August was canceled. Inactive markets continued in August to characterize the trading on the New York Stock Exchange.

New Financing

Reflecting in part usual seasonal influences, the volume of new financing continued to decline during August. A preliminary tabulation of new offerings placed the total at only $135,000,000, which is the smallest for any month since February 1935, and compares with new issues aggregating $350,000,000 in July and $620,000,000 in June.

Domestic corporate financing, which accounted for about $60,000,000 of the past month's total, included offerings of $32,000,000 of securities of the Ohio Public Service Company, composed of $28,900,000 of 25 year 4 per cent first mortgage bonds priced at 102⅝ to yield about 3.84 per cent to maturity, $1,600,000 of 1 to 10 year serial notes priced variously, and $1,500,000 of 5½ per cent cumulative preferred stock priced at 92½. Of the net proceeds from these issues about $30,100,000 will be used for the redemption of outstanding bonds. During the month, the F. W. Woolworth Company sold privately $10,000,000 of 10 year 3 per cent sinking fund debentures. The proceeds of this issue, which was sold at par to a large insurance company, are to be used for general improvements and enlargement of the store chain.

Offerings of new securities by States, municipalities, and farm loan agencies during August amounted to approximately $75,000,000, slightly more than one half of which represented refunding operations. The largest item in this group was $33,300,000 of Federal Intermediate Credit Bank 1½ per cent debentures, of which $6,500,000 were placed privately. The Intermediate Credit Banks had about $32,000,000 of debentures maturing in August. Also included in the month's offerings was the sale by the Port of New York Authority of $15,000,000 of 3¼ per cent 40 year general and refunding bonds. These bonds were awarded to a banking syndicate at a net interest cost to the borrower of 3.271 per cent and immediately reoffered to the public at 101 or an equivalent yield of about 3.21 per cent. Of the net proceeds of this issue $11,300,000 will be used for new construction and $3,700,000 for the redemption of Bayonne Bridge obligations.

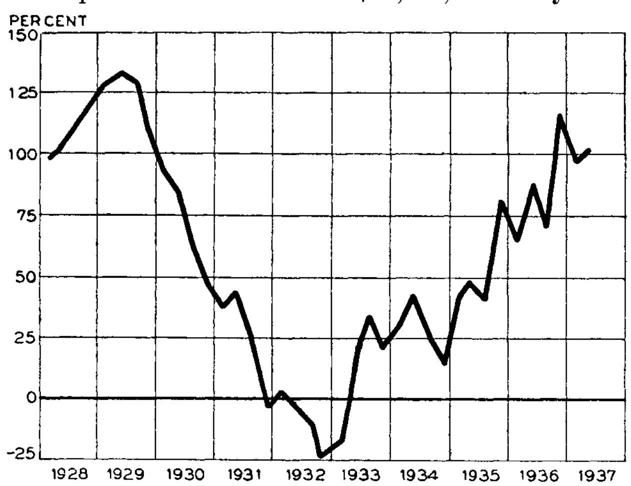
Business Profits

Net profits of 204 industrial and mercantile companies, for which earnings data are available on a quarterly basis back through 1929, were 18 per cent larger in the second quarter of 1937 than in the corresponding period a year ago. This is a smaller year to year increase in profits than occurred during the first three months of 1937, reflecting in part, it would appear, less increase over a year ago in the volume of business than in the first quarter, the prevalence of industrial strikes, and also probably the narrowing of profit margins in some industries coincident with increases in labor costs. Profits in the second quarter of 1937, despite the generally rising trend during the past 4½ years which is indicated in the accompanying diagram, remained 21 per cent less than in the corresponding period of 1929.

A few groups of companies, including chemical and drug concerns, machinery and tool concerns, miscellaneous metal and mining companies (other than coal and coke), and paper and paper products concerns, reported larger profits in the second quarter of 1937 than in the corresponding period of 1929. Other groups showing large percentage increases over a year ago, but whose profits remained less than in 1929 were the steel, railroad equipment, electrical equipment, office equipment, motion picture and amusement, and building supply companies. In addition to the automobile group whose profits continued in the second quarter to be less than a year ago, the printing and publishing, and cigar company groups also reported smaller profits than in 1936, and profits of the household equipment group were about the same as last year; furthermore, the coal and coke and shipping company groups showed deficits this year.

Aggregate profits of 317 industrial and mercantile concerns whose figures are available for the first half year were 32 per cent larger than in the first six months of 1936, but 20 per cent less than in 1929. Generally, the groups whose profits for the second quarter were less than a year ago or close to that level showed the same experience for the half year except that in the case of household equipment concerns the half yearly profits of a more inclusive list were well ahead of a year ago. Among the companies whose reports are not available on a quarterly basis are the clothing and textile groups which showed large increases in profits over a year ago and a slightly higher level of profits than in 1929, the leather and shoe concerns whose 1937 profits compared with a group deficit in 1929, the rubber and tire group where a large increase over last year carried profits to within 10 per cent of the 1929 figure, and the store group whose profits were more than one-fourth larger than in 1929.

Net income of Class I railroads in the second quarter at $21,900,000 was considerably larger than in the corresponding quarter of 1936, and for the first half year there was net income, after fixed charges, of $36,100,000, as compared with a deficit of $23,100,000 last year. Net



Index of Profits of 168 Industrial and Mercantile Corporations, Adjusted for Seasonal Variation (Average for corresponding quarter of 1925-1929=100 per cent)

income of public utility companies continued to show relatively slow improvement.

(Net profits in millions of dollars)

Corporation group	Second Quarter 1929	Second Quarter 1932	Second Quarter 1936	Second Quarter 1937	First six months 1929	First six months 1932	First six months 1936	First six months 1937
Automobiles	125.0	1.9	111.5	86.9	216.3	4.1	177.2	145.5
Automobile parts and accessories (excl. tires)	26.6	— 0.3	18.5	19.6	58.6	— 4.8	35.8	41.7
Building supplies	6.3	— 2.1	2.9	5.1	13.9	— 3.1	7.0	14.4
Chemicals and drugs	36.4	11.6	40.8	46.2	88.3	31.0	74.6	87.0
Clothing and textiles	.....	.....	.....	.....	6.2	— 11.1	3.7	6.7
Coal and coke	0.2	— 0.7	—0.1	—0.2	1.5	— 1.0	0.9	0.2
Electrical equipment	28.5	0.5	15.6	24.8	56.8	3.3	29.5	46.6
Food and food products	45.9	30.0	32.1	33.2	106.9	72.4	69.2	70.2
Household equipment	3.5	— 0.6	1.2	1.2	27.6	— 3.1	14.2	24.4
Leather and shoes	.....	.....	.....	.....	—1.9	— 1.6	1.8	2.7
Machinery and tools	8.5	— 2.6	6.8	11.1	20.5	— 9.4	13.4	23.9
Metals and mining (excl. coal and coke)	15.5	0.3	14.4	23.9	31.7	2.0	29.0	46.7
Motion pictures and amusement	5.3	— 4.6	0.8	1.7	9.8	— 8.9	2.4	4.6
Office equipment	7.7	0.3	4.2	6.7	15.3	1.3	8.8	13.4
Oil	41.8	10.8	24.7	32.1	67.3	12.4	43.7	65.0
Paper and paper products	1.5	0.1	1.1	1.8	3.3	0.6	2.4	4.4
Printing and publishing	7.8	2.1	2.9	2.5	16.5	6.0	6.0	5.4
Railroad equipment	6.0	0.5	2.1	4.4	16.5	— 1.0	3.9	13.8
Rubber and tires	.....	.....	.....	.....	18.3	— 5.7	8.5	16.6
Shipping	1.1	— 0.5	0.2	—0.3	3.5	— 1.0	1.1	—0.5
Steel	88.0	—33.2	25.8	58.9	164.5	— 62.0	37.8	121.4
Stores	.....	.....	.....	.....	2.5	— 1.5	2.9	3.2
Tobacco (cigars)	2.7	0.6	0.8	0.7	4.4	1.2	1.4	1.3
Miscellaneous	13.5	3.2	8.8	11.3	34.7	2.9	19.1	26.8
Total—{204 cos. 2nd quar. / 317 cos. 1st half	471.8	17.3	315.1	371.6	983.0	23.0	594.3	785.4
142 Class I Railroads Net income	*	—70.5	4.5	21.9	*	—125.3	—23.1	36.1
47 Public utility companies (except telephone companies) Net income	54.8	42.8	40.1	43.2	115.5	92.0	83.3	88.7

—Deficit. * Not available.

Foreign Exchanges

The volume of foreign exchange turnover, both in New York and in European centers, was comparatively small during August, and rate movements were confined to moderate limits. The pound sterling, after closing in this market at \$4.97¾ on July 31, showed continued firmness during most of the subsequent month, being quoted on several days fractionally above \$4.99. In the last week of August, however, the pound developed an easier tendency, reaching \$4.96¼ on the morning of the 30th and closing at \$4.97¼. This recession was attributed in market quarters to seasonal commercial purchases of dollars and to the fear of possible complications growing out of the hostilities in China.

French exchange continued during most of August at about the level which had been established in the latter part of July. During the period when the pound showed firmness against the dollar the franc quotation in this market ranged between \$0.0374¾ and \$0.0375⅞, but in the latter part of the month the rate receded moderately in keeping with the movement of sterling, being quoted at \$0.0373⅝ on the morning of August 30 and closing at \$0.0374 3/16. The Netherlands guilder and the Swiss franc also fluctuated narrowly until late in August, when moderate recessions were recorded. The belga remained at or slightly below its estimated lower gold point despite continued gold shipments from Antwerp to New York.

The rates for Far Eastern currencies have shown only minor fluctuations during the recent period of Sino-Japanese hostilities. The acute tension in North China was reported to have induced moderate selling of Chinese exchange during July, but owing presumably to supporting operations by the Chinese monetary authorities, the actual movement of quotations on Shanghai was slight, the rate being maintained at about 29½ cents per yuan. The extension of hostilities to the Shanghai area in August led, first, to a suspension of banking operations, and, subsequently, to a reopening of the banks on a drastically limited withdrawal basis, with a consequent immobilization of the bulk of depositors' funds. Immediate cash requirements of individuals and concerns in Shanghai were therefore met in considerable part through the sale of foreign exchange, and the yuan advanced to 30⅛ cents, the upper operating point of the Chinese monetary authorities.

In view of the rigid supervision of exchange dealings in Japan, there is no indication that the developments of the month led to speculative pressure against the yen. Although Japan's excess of merchandise imports has risen sharply during the elapsed portion of 1937, owing both to higher raw material prices and to the building up of domestic stocks of essential imported materials, the balance of payments deficit has been covered by gold shipments to this country, and, with the aid of such shipments, the pegged exchange rate against sterling has continued to be maintained.

Gold Movement

The influx of gold into the United States during August was slightly smaller than in July and considerably less than in June. Imports affecting the monetary gold stock totaled \$88,600,000; at New York \$22,100,000 was received from England, \$11,500,000 from Canada, \$7,400,000 from Belgium, \$5,500,000 from India, and \$500,000 from Holland, and on the Pacific Coast \$38,000,000 arrived from Japan, \$3,500,000 from Australia, and \$100,000 from Hongkong.

These imports together with approximately \$3,900,000 of gold released from earmark for foreign account, and receipts from other sources, including newly mined and scrap gold, resulted in an increase in the monetary gold stock of the country during the month of about \$120,000,000. The Treasury's daily statement of August 28 showed \$1,320,800,000 of "inactive gold" held in the general fund.

Central Bank Rate Changes

Effective August 4, the discount rate of the Bank of France and the rate for thirty day advances on French Government securities were lowered from 5 to 4 per cent, and the rate for three month advances was reduced from 6 to 5 per cent. The higher rates had been in effect since July 7, 1937. On August 11 the Bank of Portugal announced the reduction of its discount rate from 4½ to 4 per cent, the first change in the rate since May 12, 1936.

Building

Following the upward movement of the previous month, the dollar value of construction contracts awarded in the 37 States covered by the F. W. Dodge Corporation report was little changed in July. Owing to contracts for iron and steel plants, the commercial and factory classification showed a marked rise and public utility contracts were considerably enlarged as a result of tunnel and subway projects. These gains, however, were offset by declines in awards for residential and public purpose buildings, and public works. In comparison with July 1936, all classifications except public works showed increases as is indicated in the following table.

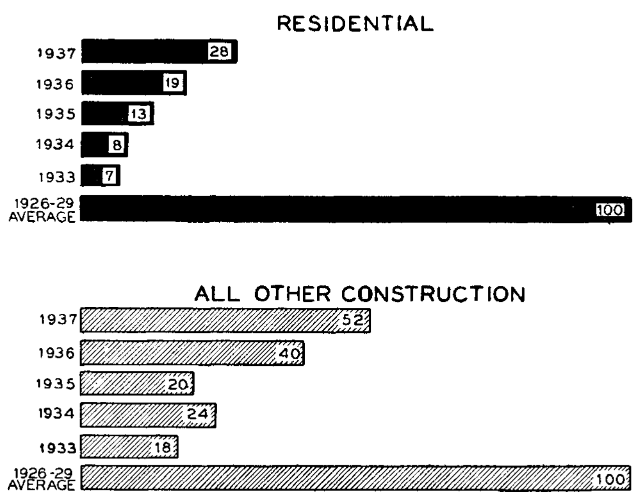
Percentage Change in Average Daily Contracts

	N.Y. and Northern N.J. July 1937 compared with		37 States July 1937 compared with	
	June 1937	July 1936	June 1937	July 1936
Building				
Residential	— 32	— 21	—13	+13
Commercial and factory	— 34	— 11	+43	+83
Public purpose*	— 25	+ 12	—21	+ 4
All building	— 30	— 12	+ 1	+30
Engineering				
Public works	— 26	— 29	—25	—47
Public utilities	+311	+256	+67	+82
All engineering	+ 93	+ 80	+ 3	—19
All construction	+ 11	+ 26	+ 1	+ 9

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

In the New York and Northern New Jersey area, contracts awarded during July for public utility construction registered a sharp advance but all other classifications were lower than in June. Total contracts were larger than in July 1936 owing principally to the relatively high level of public utility awards.

The progress of recovery in construction in the Second District, as reflected in contract awards in New York and Northern New Jersey in the first seven months of each of the past five years, is shown in the accompanying diagram. In the upper set of bars the total of residential contracts in the first seven months of each year is expressed as a percentage of the average for the like period of the four predepression years, 1926-1929. A similar comparison for all other types of construction is made in the lower set of bars. Residential contracts were only 7 per cent of their predepression average in the 1933 period,



Value of Construction Contracts Awarded in New York and Northern New Jersey Area During First Seven Months of Recent Years Relative to 1926-29 Average (F.W. Dodge Corporation data)

but have registered a steady recovery in the succeeding years and in 1937 represented 28 per cent of the 1926-29 average. It is not to be inferred, of course, that the physical volume of construction has risen as rapidly as the dollar value of contract awards. The cost of building in this area is estimated by various authorities to have risen 10 to 20 per cent during the past year and 15 to 30 per cent since 1933.

All other construction, aided to a greater extent by Government expenditures, was not reduced as much relatively as residential building, and recovery from the bottom of the depression, though less rapid than in residential building, has proceeded further. Contracts for such construction in the first seven months of 1933 were 18 per cent of their 1926-29 average, and have recovered in the past four years to 52 per cent of that average. The increase in 1937 over the like period a year ago in these types of construction amounted to 29 per cent, as compared with an increase of 50 per cent in residential building.

Data for the first half of August indicate a seasonal decline from July in total construction contracts in 37 States. Less than the usual recession occurred in heavy engineering construction, while larger than seasonal declines were shown in residential and nonresidential building.

Commodity Prices

The general average of wholesale commodity prices registered little net change during the first half of August, but moved somewhat lower in the latter part of the month. The net decline for the month as a whole in principal commodities traded in on organized exchanges amounted to about 5 per cent, according to Moody's Investors Service index which reached a new low for the year. The more comprehensive index compiled by the Bureau of Labor Statistics, although declining slightly during August, remained well above the year's low.

Prices of a number of farm products showed a downward tendency in the latter part of the month, the most pronounced loss occuring in raw cotton quotations. The spot quotation for this commodity held steady during the early days of the month, but subsequently declined to close the month at 9.52 cents a pound, about 1⅔ cents below a month previous and the lowest price since October 1933, and a similar movement was shown in cotton futures. Cash wheat at Minneapolis, which also was little changed in early August, showed a net decline of 14¾ cents for the month as a whole, closing at $1.28 a bushel. On the other hand, spot corn at the end of August was slightly higher than a month previous, as a result of an advance in the early days, which was only partially canceled by a subsequent reaction. In the case of livestock prices, the average price of steers advanced 59 cents further to $14.42 a hundredweight, the highest since October 1929, while the average price of hogs, after reaching the highest level in recent years on August 5, moved downward to close the month at $11.65 a hundredweight, $1.05 below a month previous. Raw sugar and silk prices increased slightly in August.

Price advances were evident in several of the principal metals during the month. Scrap steel at Pittsburgh rose $1.50 to $22.25 a ton, zinc advanced ¼ cent to 7¼ cents a pound, and an increase of ½ cent brought the price of lead to 6.525 cents a pound; all of these prices, however, remained below their March highs. Little net change occurred in the prices of copper, tin, and scrap steel at Chicago.

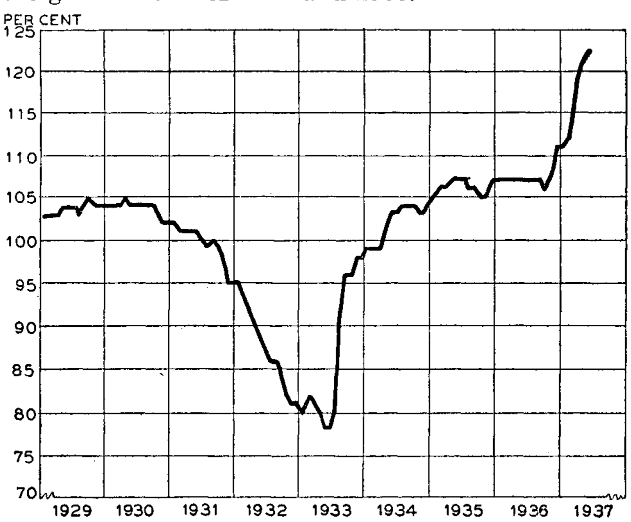
Employment and Payrolls

New York State factory employment showed a seasonal decline of about 1 per cent from the middle of June to the middle of July and payrolls were approximately 1½ per cent lower. Seasonal slackness in the clothing and millinery and the metals and machinery groups were important factors contributing to the recession in employment. Some seasonal advance, however, occurred in food industries. Compared with a year ago, the number of factory workers employed showed an increase of 14 per cent, and weekly payrolls an increase of 26 per cent.

Employment and payrolls of industries reporting to the United States Bureau of Labor Statistics also declined slightly from the middle of June to the middle of July. However, it is estimated that nearly 1,300,000 more workers are now employed in these industries than in July 1936.

The recession in employment in July was largely due to seasonal factors influencing a number of the nonmanufacturing industries, particularly retail trade. Employment in the manufacturing industries advanced slightly in both the durable and the nondurable classifications. Resumption of operations in steel plants that had been affected by strikes in June accounted for the largest gain in the number of workers in the durable goods group, while the increase in employment in the manufacture of nondurable goods reflected largely seasonal gains in food industries.

In this Review for April 1 a diagram was presented indicating the movement of hourly wage rates in manufacturing since 1929. Since February, the last month included on that diagram, the rise of hourly wage rates has been considerably extended, as shown on the accompanying chart. Wage rates rose 9 per cent from February to June and in the latter month were 17 per cent above the general level of 1929 and 1930.



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

Production

Industrial production during August appears to have been maintained near the level of June and July. Steel mill operations were estimated in the neighborhood of 84 per cent of capacity during the month as compared with an actual average of 78½ in July. The operating ratio in August appears to have averaged about 9 points higher than during the strike but approximately 6 points lower than before the strike, owing to seasonal reduction in steel requirements. Electric power production and bituminous coal output advanced slightly during August, but shutdowns for vacations and model changes reduced the volume of automobile assemblies, and some further decline was reported in cotton textile mill activity.

The seasonally adjusted index of industrial production of the Board of Governors of the Federal Reserve System was unchanged in July at 114 per cent of the 1923-25 average. Steel output increased with the passing of labor disturbances, and lead production, rayon output, tobacco manufacturing, and electric power generation also showed advances. On the other hand there were declines, more or less of a seasonal nature, in automobile assemblies, cotton consumption, copper production, and zinc output; and there was a decrease in silk mill activity contrary to the usual movement. Bituminous coal mining was practically unchanged from June to July.

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

	1936	1937		
	July	May	June	July
Metals				
Pig iron *r*	82	101	95	110
Steel	99	105	94	113
Copper	65	111	117	121
Lead	65	65	63	73
Zinc	90	104	99	97
Automobiles				
Passenger cars	103*r*	102	96	103*p*
Motor trucks *r*	102	117	112	116*p*
Fuels				
Bituminous coal	87	84	87	86*p*
Anthracite coal	94	86	100	65*p*
Petroleum, crude	84	98	96	96*p*
Petroleum products	87	91	91	
Electric power	92	96	97	97*p*
Textiles and Leather Products				
Cotton consumption *r*	107	116	116	113
Wool consumption	111*r*	125	114	94*p*
Silk consumption *r*	71	78	78	64
Rayon production *r*	101	96	104	108
Shoes	115*r*	126	115	115*p*
Foods and Tobacco Products				
Meat packing	89	74	76	69
Wheat flour	98	80	86	88
Sugar meltings	92	117	84	124
Tobacco products	93	86	82	95
Miscellaneous				
Cement *r*	60	63	55	59
Lumber	75	74	81	
Newsprint paper	79	81	80	85*p*
Machine tools	153	198	171	169

p Preliminary *r* Revised

Indexes of Business Activity

Freight car loadings in the first three weeks of August were slightly below the July average, whereas some advance is usual at this time of year.

No consistent change appears to have occurred in the level of general business activity and the distribution of goods during July. Department store sales in the Second District declined more than is usual at this time of year, but the decrease in sales for the country as a whole was of about the usual seasonal proportions. Less than the usual decline was shown in chain grocery sales, while larger than seasonal decreases occurred in sales of mail order houses and in new ordinary life insurance policies written. The volume of check transactions outside New York showed a contraseasonal recession; in New York, however, some advance occurred, contrary to the usual seasonal movement. After seasonal adjustment, little change was shown in the movement of freight over the railroads and in the volume of advertising. Registrations of new passenger cars for July are estimated at 376,000 units, an increase of 16,000 cars over the June figure.

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

	1936	1937		
	July	May	June	July
Primary Distribution				
Car loadings, merchandise and misc.	72	78	76	75
Car loadings, other	80	90	87	88
Exports	68	93	87*p*	
Imports	86	108	108*p*	
Distribution to Consumer				
Department store sales, U. S.*r*	94	92	91	90
Department stores sales, 2nd Dist.	85	87*r*	85*r*	82
Chain grocery sales	73	62	62	64
Other chain store sales	95	98	97	97
Mail order house sales	96	104*r*	98*r*	94
Advertising	75	82	80	79
New passenger car registrations	97	98	96*p*	100*p*
Gasoline consumption	98	96	98	
General Business Activity				
Bank debits, outside New York City	65	67	66	64*p*
Bank debits, New York City	41	35	36	38*p*
Velocity of demand deposits, outside New York City	68	70	68	69
Velocity of demand deposits, New York City	45	42	43	48
New life insurance sales	74	73	75	69*p*
Employment, manufacturing, U. S.	94	104	103	105*p*
Employee hours, manufacturing, U. S.	84	96	94	96*p*
Residential building contracts	36	29	35	35
Nonresidential building and engineering contracts	78	51	65	72
New corporations formed in N. Y. State	68	65	63	62
General price level*	154	162	162	163*p*
Composite index of wages*	193	205	207	208*p*
Cost of living*	146	151	151	151*p*

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

Department Store Trade

During the first half of August, sales of the reporting department stores in the Metropolitan area of New York were 2.2 per cent higher than in the first half of August 1936.

July sales of the reporting department stores in this district were 1.7 per cent higher than last year, the smallest increase since October 1935. Sales of the New York and Brooklyn reporting stores were practically unchanged from last year's total, while department stores throughout the remaining localities in this district recorded moderate gains in sales over last year, with fairly substantial advances occurring in Syracuse, Bridgeport, and Niagara Falls. Sales of the leading apparel stores in this district were 11.3 per cent lower than last year, the first decrease in over two years.

Department store stocks of merchandise on hand at the end of July continued substantially higher than last year, and some increase in stocks was also shown by the apparel stores. Collections were lower this year than last for department stores in practically all localities, and also for the apparel stores.

Locality	Percentage change July 1937 compared with July 1936		Per cent of accounts outstanding June 30 collected in July	
	Net sales	Stock on hand end of month	1936	1937
New York	+ 0.1	+20.4	49.4	48.3
Buffalo	+ 7.6	+19.0	48.8	46.4
Rochester	+ 2.5	+14.9	50.1	48.4
Syracuse	+10.8	+ 5.9	34.3	38.9
Northern New Jersey	+ 1.3	+21.2	41.7	41.1
Bridgeport	+20.9	+ 4.2	41.4	40.8
Elsewhere	+ 5.1	+ 0.4	36.3	36.5
Northern New York State	+ 2.4	......	....	....
Southern New York State	+ 4.2	......	....	....
Central New York State	+ 4.4	......	....	....
Hudson River Valley District	+ 6.1	......	....	....
Capital District	+ 3.3	......	....	....
Westchester & Stamford	+ 3.6	......	....	....
Niagara Falls	+13.3	......	....	....
All department stores	+ 1.7	+18.9	46.0	45.3
Apparel stores	—11.3	+ 4.9	43.3	42.3

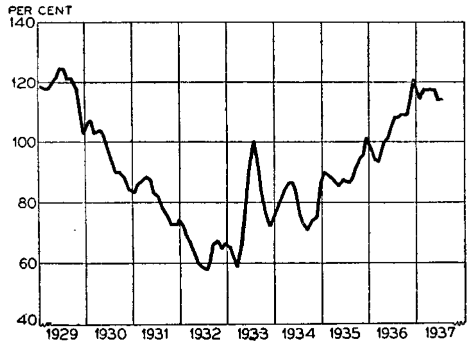
Wholesale Trade

July sales of reporting wholesale firms averaged 8.2 per cent below last year, the first decrease since May 1936. Sales of the cotton goods and shoe concerns showed the largest year to year recessions in about two years, the hardware and grocery firms reported the least favorable sales comparisons since January 1936, and the paper concerns showed the smallest increase since October 1936. Sales of the stationery and drug firms were below last year's volume following several months in which gains over a year ago were recorded, yardage sales of rayon and silk goods (reported by the National Federation of Textiles) showed a smaller increase than in June, and there was a rather large decline in sales of men's clothing from the unusually high level of a year ago. On the other hand, the diamond and jewelry firms reported larger advances in sales than in June.

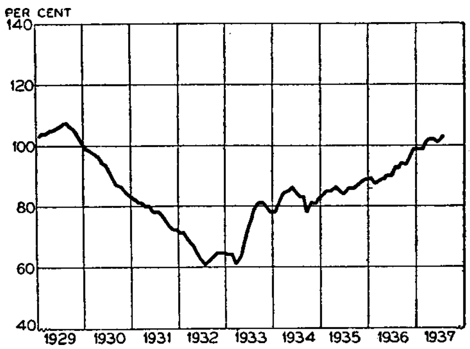
Commodity	Percentage change July 1937 compared with July 1936		Per cent of accounts outstanding June 30 collected in July	
	Net sales	Stock end of month	1936	1937
Groceries	— 1.4	+20.6	94.8	91.4
Men's clothing	—30.2	......	47.0	38.2
Cotton goods	— 8.3	......	43.4	42.8
Rayon and silk goods	+11.9*	......	76.7	48.8
Shoes	—16.7	......	43.3	31.1
Drugs and drug sundries	— 5.2‡	+17.6‡	....	....
Hardware	+ 0.7	+49.7	47.0	44.4
Stationery	— 5.7	......	....	....
Paper	+ 9.3	......	52.4	52.4
Diamonds	+50.9	+52.8	27.5	24.2
Jewelry	+ 6.6	+ 8.7		
Weighted average	— 8.2	......	63.3	55.4

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

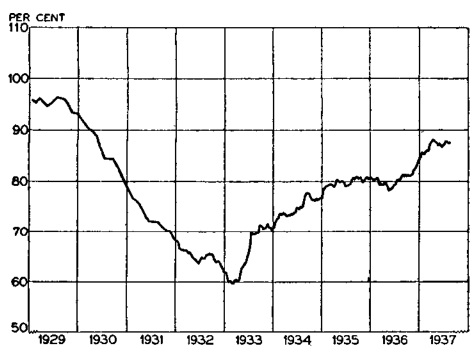
MONTHLY REVIEW, SEPTEMBER 1, 1937



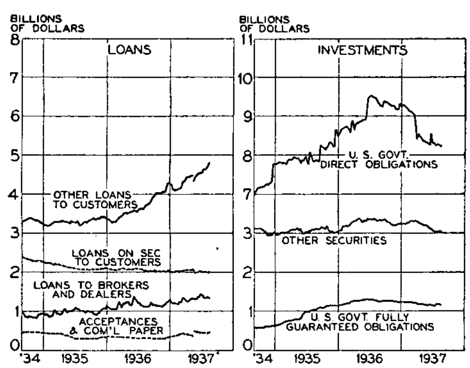
Index Number of Production of Manufactures and Minerals Combined, Adjusted for Seasonal Variation (1923-25 average =100 per cent)



Index of Factory Employment with Adjustment for Seasonal Variation (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 August 18)

Business Conditions in the United States

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

TOTAL volume of industrial production and distribution of commodities to consumers showed little change from June to July, when allowance is made for the usual summer declines.

Production and Employment

The Board's seasonally adjusted index of industrial production was 114 per cent of the 1923-1925 average in July, the same as in June and 4 points lower than in March, April, and May. At steel mills, where output in June had been curtailed by strikes, activity increased considerably in the early part of July and was maintained at the higher level between the middle of July and the third week of August. Lumber production also increased in July, while output of plate glass showed a substantial decrease. Automobile assemblies declined seasonally. Output of nondurable manufactures decreased considerably, owing largely to a marked decline in activity at cotton and woolen textile mills. Meat packing also declined, while flour milling and sugar refining increased. At mines, output of anthracite was reduced in July, while output of most other minerals showed little change.

Construction contracts awarded, as reported by the F. W. Dodge Corporation, were maintained in July at the level reached in June. Nonresidential construction expanded further, reflecting principally a large volume of awards for iron and steel plants and for railroad projects. Residential building showed a seasonal decline.

Factory employment increased somewhat from the middle of June to the middle of July, when a decline is usual, and factory payrolls decreased less than seasonally. The largest increases in employment were in the steel industry and in the food industries, particularly at canning factories. Other manufacturing industries as a group showed somewhat less than the usual seasonal decline.

Agriculture

A cotton crop of 15,593,000 bales, representing an increase of 3,200,000 bales over last season, was forecast by the Department of Agriculture on the basis of August 1 conditions. Official estimates indicate that other major crops will be considerably larger than last season and about equal to the average for 1928-1932. Preliminary estimates by the Department of Agriculture indicate that cash farm income, including Government payments, will total $9,000,000,000 for the calendar year 1937, an increase of 14 per cent over 1936.

Distribution

Distribution of commodities to consumers in July continued at the level of other recent months, when allowance is made for the usual summer decline. Sales at department stores and variety stores showed slightly less than the seasonal decrease in July, while mail order sales declined somewhat more than seasonally. Freight car loadings increased, reflecting in part larger shipments of grains and forest products.

Commodity Prices

From the middle of July to the third week of August prices of grains and cotton declined substantially, while livestock and meats showed a further increase. Automobile prices were raised by most producers, carpet prices advanced, and there were increases in several industrial raw materials, including hides, zinc, lead, and steel scrap. Cotton goods and rubber declined somewhat.

Bank Credit

From the middle of July to August 4, excess reserves of member banks were sharply reduced from $960,000,000 to $700,000,000, but subsequently they increased to $780,000,000 on August 18. These changes in member bank reserves reflected principally fluctuations in the volume of Treasury deposits at Federal Reserve Banks, together with a seasonal increase in money in circulation. Excess reserves at New York City banks declined from $230,000,000 to about $40,000,000 and subsequently increased to $130,000,000.

Total loans and investments of reporting member banks increased somewhat during the four weeks ended August 18, reflecting principally an increase of $150,000,000 in commercial loans offset in part by a further decline in holdings of United States Government obligations, principally at New York City banks. The growth in commercial loans occurred both in New York City and in other cities and included the purchase by banks of a large portion of the $60,000,000 of 9 month notes sold by the Commodity Credit Corporation on August 2.

United States Government deposits at reporting banks increased during the period, reflecting purchases by banks of Treasury bills on a book credit basis. Bankers' balances and other demand deposits showed further declines at New York City banks.

Money Rates

Rates on Treasury bills declined slightly after the middle of July, and open market yields on Treasury notes and bonds also declined until early in August, but later there was a rise in yields. In the latter part of August discount rates were reduced from 2 per cent to 1½ per cent at the Federal Reserve Banks of Atlanta, Chicago, Minneapolis, Richmond, and Dallas, and from 1½ to 1 per cent at the New York Reserve Bank.