# MONTHLY REVIEW
## of Credit and Business Conditions
### Second Federal Reserve District

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

## Money Market in September

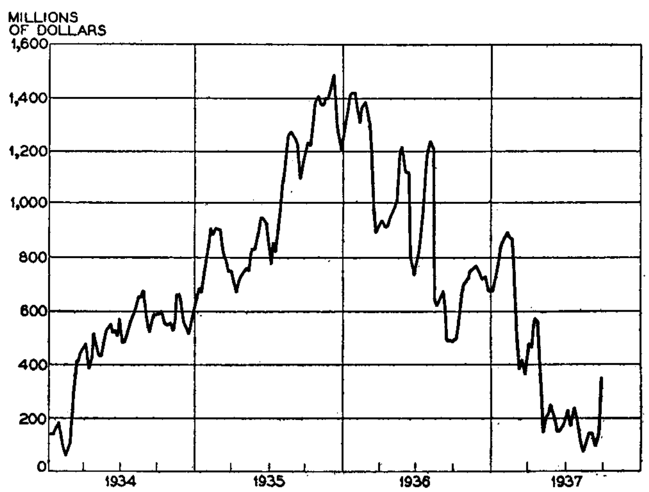
The increase in currency circulation over the August month end and Labor Day holiday, together with the usual transfer of funds from New York to other parts of the country after the first of each month, again reduced excess reserves of New York City banks to comparatively small amounts during the early part of September. Although the amount of excess reserves did not fall as low as in the early part of August, it was nevertheless quite small in proportion to the expected seasonal demand for funds during the remainder of the year.

At the same time industrial activity, after holding during the summer at levels only slightly below those of last winter and the early spring, showed signs of slackening in September. Forward ordering of industrial materials and finished goods during recent months has been in reduced volume, and commodity prices have been tending to weaken—a situation in marked contrast to that of the early part of the year when prices were rising strongly, and forward buying on a large scale was done in anticipation of further advances in prices.

Rapid expansion in member bank commercial loans has continued but has been offset by reductions in bank investments; so that the total volume of bank credit outstanding, after rising rapidly from the spring of 1934 to the end of 1936, has now shown no net increase for a number of months. Accompanying this check to credit expansion, the volume of deposits in individual accounts leveled off during the first five months of this year, and subsequently has shown a slight downward tendency. In the marketing of new securities also there has been a considerable, although more recent, change in conditions. During the first seven months of 1937 sales of securities to provide new capital for industries continued the irregular upward trend of the preceding two years, but since July flotations of such securities have fallen off sharply, accompanying unsettled conditions in the market for high grade securities and substantial declines in the market prices of lower grade bonds and of stocks. This source of funds for business expansion, consequently, has been limited during the past two months.

On September 12, following a meeting of the Federal Open Market Committee to review the business and credit situation, the Committee issued the following statement:

> The Federal Open Market Committee met in Washington on September 11 and 12 and reviewed the business and credit situation. In view of the expected seasonal demands on the banks for currency and credit during the coming weeks the Committee authorized its Executive Committee to purchase in the open market from time to time sufficient amounts of short term U. S. Government obligations to provide funds to meet seasonal withdrawals of currency from the banks and other seasonal requirements. Reduction of the additional holdings in the open market portfolio is contemplated when the seasonal influences are reversed or other circumstances make their retention unnecessary.
>
> The purpose of this action is to maintain at member banks an aggregate volume of excess reserves adequate for the continuation of the System's policy of monetary ease for the furtherance of economic recovery.
>
> As a further means of making this policy effective, the Open Market Committee recommended that the Board of Governors of the Federal Reserve System request the Secretary of the Treasury to release approximately $300,000,000 of gold from the Treasury's inactive account. The Board of Governors acted upon this recommendation and the Secretary of the Treasury agreed to release at once the desired amount of gold. This will place an equivalent amount of funds at the disposal of the banks and correspondingly increase their available reserves.
>
> This action is in conformity with the usual policy of the System to facilitate the financing of orderly marketing of crops and of autumn trade. Together with the recent reductions of discount rates at the several Federal Reserve banks, it will enable the banks to meet readily any increased seasonal demands for credit and currency and contribute to the continuation of easy credit conditions.




**Excess Reserves of New York City Central Reserve Banks (Weekly averages of daily figures; latest plotting is for week ended September 24)**

The first step in executing the policy indicated by this statement was taken by the Treasury, which immediately released from the inactive gold account, $300,000,000 of gold previously "sterilized". The proceeds were deposited in the Government account with the Federal Reserve Banks, from which the Treasury makes disbursements in meeting current Government expenditures. In view of this large increase in the Government's deposit with the Reserve Banks, and in order to expedite the disbursement of the funds, a call which had been issued to Government depositaries (other than the Reserve Banks) for the repayment on September 15 of $50,000,000 of the deposits held by such institutions was canceled.

Disbursements from the Government account with the Reserve Banks quickly attained large volume, as a considerable amount of interest on the National debt was payable on September 15, and $350,000,000 of Treasury bills were redeemed on September 16 to 18 inclusive. These and other Government disbursements were partly offset by the collection of third quarter income tax instalments and other Treasury receipts, but net outpayments totaled over $200,000,000 by September 22 and about $275,000,000 by September 29, and bank reserves were thereby increased by corresponding amounts.

As a large part of the Treasury bills that matured on September 16 to 18 were held in New York, partly by the New York City banks and partly by other domestic and foreign investors, the redemption of these securities had the effect of increasing chiefly the New York City banks' reserves. Excess reserves of the New York City banks rose from a low point of approximately $75,000,000 on September 9 to more than $300,000,000 at the close of business on September 18. Subsequently the amount increased further to about $350,000,000 on September 22, and to more than $400,000,000 near the end of the month, due partly to transfers of funds from other parts of the country and partly to payments for incoming gold. Thus excess reserves in New York rose to the highest level since last April as the preceding diagram shows, and the New York banks were placed in a position to meet further autumn demands for funds readily without liquidating earning assets.

## Money Rates

The principal reflection in short term money rates of this change in the reserve position of the New York banks was in the rate bid for the weekly offerings of Treasury bills, as the interest yields on these securities have for some time been more sensitive to changes in the money market situation than other short term money rates. Average yields on nine month Treasury bills receded during the latter part of September to the lowest levels since February. At the same time yields on the longer term Treasury securities also declined, accompanying a strengthening in the market for such securities, and yields on high grade corporation bonds became steadier. The market for lower grade corporation bonds, however, was influenced more largely by the stock market situation than by the money market position, and yields on such bonds rose further.

## Member Bank Credit

The expansion in commercial, industrial, and agricultural loans continued at a rapid pace during the past month. On September 22 the volume of such loans in the weekly reporting member banks in the principal cities was $172,000,000 higher than four weeks previously, nearly $450,000,000 larger than at the end of June, and probably at least $1,000,000,000 above the low point of the year at the end of January. The increase in commercial loans, however, was more than offset during the past month by a further decline in bank holdings of Government securities, reflecting in part the redemption of Treasury bills during the tax period previously commented upon, together with some liquidation of borrowings by security brokers and dealers. Government security holdings showed a decrease of about $300,000,000, a considerable part of which occurred in the third week of September when the large volume of maturing Treasury bills was redeemed. The decline in security loans occurred largely in New York, in view of the fact that the security markets are financed to a large extent in the New York market. The total loans and investments of the principal New York City banks declined during the past month to the lowest level since February 1936, and were about 10 per cent less than at the high point which was reached in June of last year. In 100 other principal cities, however, the decline in total loans and investments during the past month approximately canceled the increase of the preceding month, and the present volume is about 2 per cent below the high point of last year.

Adjusted demand deposits, after showing little net change in the first five months of the year, have since shown some decline, but are not materially less than a year ago. Time deposits have continued to increase gradually.

Money Rates in New York

| | Sept. 30, 1936 | Aug. 31, 1937 | Sept. 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) | 1.67 | 1.67 | 1.58 |
| Average yield on Treasury notes (1-5 years) | 0.80 | 1.35 | †1.17 |
| Average yield on Treasury bonds (more than 5 years to earliest call date) | 2.33 | 2.54 | 2.50 |
| Average rate on latest Treasury bill sale 273 day issue | 0.19 | 0.62 | 0.38 |
| Federal Reserve Bank of New York rediscount rate | 1½ | 1 | 1 |
| Federal Reserve Bank of New York buying rate for 90 day indorsed bills | ½ | ½ | ½ |

* Nominal.
† Change of +0.07 from previous yields due to dropping the 2½ per cent Treasury notes maturing Sept. 15, 1938, and including two new issues, the 1¼ per cent notes maturing December 15, 1938, and the 2 per cent notes maturing Sept. 15, 1942.

## Government Securities

Prices of Treasury bonds declined further by an average amount of about ½ point during the first week of September to within about ¾ of a point of the low level of last April. After the details of the quarterly Treasury financing program were announced on September 7, and especially after the success of the issues was assured a few days later, however, outstanding Treasury bonds steadied and then showed a slight rising tendency, and in the succeeding week advanced about ⅝ of a point. For the balance of the month there was little net change, so that quotations showed a net rise of about ¼ point for

September as a whole. The average yield on Treasury bonds with more than 5 years to call date or maturity stood at 2.50 per cent at the end of the month as compared with 2.60 per cent on September 8 and 2.54 per cent at the end of August.

Yields on intermediate and short term Government obligations, however, showed much larger reductions. The average yield on Treasury notes of 1 to 5 year maturity, after rising somewhat in the first week of the month, subsequently was reduced about 1/4 per cent, and the average rate at which new issues of 273 day bills were sold by tender, after rising to 0.711 per cent on the issue dated September 8, subsequently declined to 0.384 per cent on the issue of September 29, a reduction of about 1/3 per cent.

The September quarterly financing operations of the Treasury comprised only two new Treasury note issues offered exclusively in exchange for 3 1/4 per cent notes maturing September 15 in the amount of $817,500,000. These notes were exchanged to the extent of $775,600,000, of which $433,500,000 went into the new issue of 1 1/4 per cent 15 month notes and $342,100,000 into the new 2 per cent 5 year notes. Market quotations for the new issues advanced during the second half of September to a premium of about 3/4 of a point in the case of the shorter maturity and to more than 1 point for the longer maturity. The remaining $41,900,000 of Treasury notes due September 15 which were not exchanged, have been or will be shortly redeemed in cash, reducing to that extent the interest bearing debt. Furthermore, on September 16, 17, and 18 a total of $350,000,000 of Treasury bills matured without being replaced with other issues, and although two new $50,000,000 issues of bills were floated early in the month to mature at the December tax period, the net result of all operations was a reduction of about $275,000,000 in the interest bearing debt outstanding with the public during the month of September.

The two issues of December tax period bills floated in the first part of September completed the issuance of a total of $450,000,000 of bills maturing between December 16 and 21, the redemption of which will serve to offset the effect on the money market of income tax collections at that time.

### Bills and Commercial Paper

No material change occurred during September in the market for bankers acceptances. Demand continued active, but offerings of bills to dealers remained small, and rates were unchanged.

The volume of acceptances outstanding declined an additional $8,000,000 during August to $344,000,000, but remained $36,000,000 above the total for a year previous. The decrease for the month occurred as a result of a $9,000,000 decline in import bills, and smaller reductions in the amount of bills based on goods stored in or shipped between foreign countries and in bills arising out of domestic shipments, partly offset by an increase of about $4,000,000 in bills arising out of domestic warehouse credits. About $263,000,000, or roughly 77 per cent, of all bills outstanding at the end of August were held by accepting institutions. Holdings by accepting banks and bankers in the Second Federal Reserve District amounted to $198,000,000.

Banking investors continued to inquire actively for commercial paper during September. Available supplies of business notes, while in fairly sizable quantity, nevertheless remained considerably below the investment demand. The prevailing rate for average grade prime 4 to 6 month commercial paper was unchanged at 1 per cent. Outstanding paper reported by commercial paper houses at the end of August amounted to $329,000,000, the largest since December 1930. The August outstandings were 1 per cent above a month ago and 60 per cent higher than a year ago.

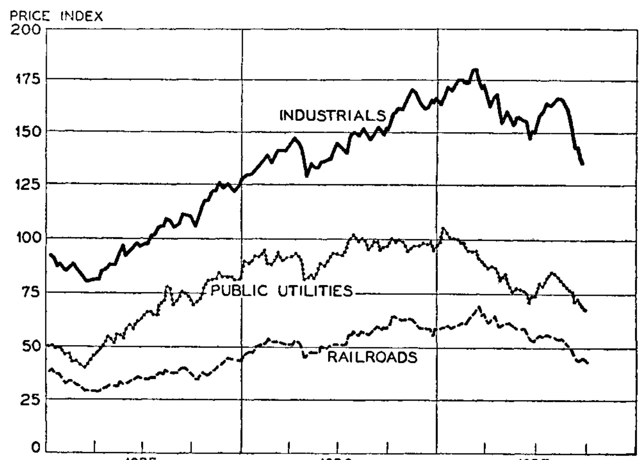
(Millions of dollars)

| Type of acceptance | Aug. 31, 1936 | July 31, 1937 | Aug. 31, 1937 |
|---|---|---|---|
| Import | 104 | 143 | 134 |
| Export | 63 | 71 | 71 |
| Domestic shipment | 10 | 11 | 10 |
| Domestic warehouse credit | 50 | 54 | 58 |
| Dollar exchange | 2 | 2 | 2 |
| Based on goods stored in or shipped between foreign countries | 79 | 71 | 69 |
| Total | 308 | 352 | 344 |

## Security Markets

Continuing at an accelerated pace the recession of the second half of August, the general average of stock prices declined sharply in September. After the middle of the month successive new lows for the year were reached, and by the 25th, quotations for railroad and public utility stocks were the lowest since the latter part of 1935, and prices of industrial stocks were the lowest since the early part of 1936, as the accompanying diagram indicates. Between the middle of August and the end of September the decline amounted to about 24 per cent in the case of railroad stocks, 21 per cent in industrials, and 18 per cent in public utilities.

In the period between the first part of March and the end of June the general average of stock prices had dropped about 20 per cent, following which there was a recovery of nearly two-thirds by the middle of August. The weakness in the stock market since that time, however, has reduced the general level of prices 10 per cent below the low point at the end of June, and made the total decline since March about 28 per cent. At the times of greatest price weakness in September, the turnover of



Movement of Stock Prices (Standard Statistics Company daily indexes as of Wednesdays; 1926 = 100 per cent) stocks on the New York Exchange became somewhat heavier, being between 2,300,000 and 2,600,000 shares on three days, but otherwise the market was not much more active than in other recent months.

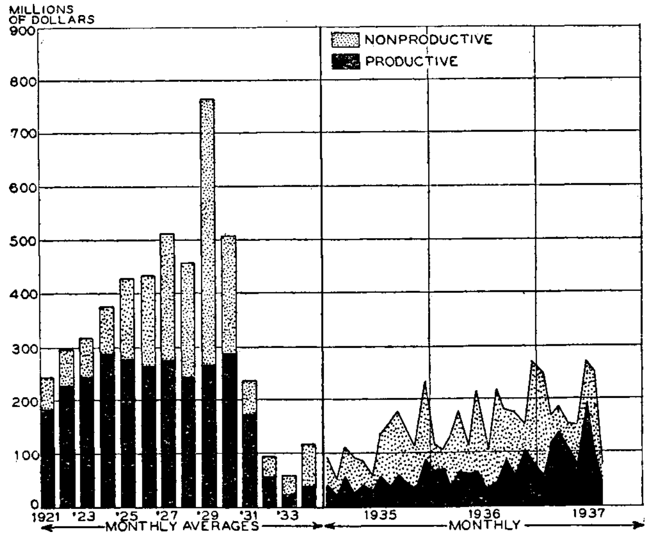
During the first part of September, corporation bond prices generally moved lower in sympathy with prices of equities, as indicated by the fact that considerably larger declines occurred in medium and lower grade issues than in high grade issues. In this period, the average yield on Baa issues rose from 5.03 to 5.30 per cent, while the yield on Aaa issues went only from 3.28 to 3.31 per cent. After September 13, high grade issues held fairly steady, and for a time medium grade issues also recovered somewhat, but subsequently a renewed decline occurred in this group of bonds and toward the close of September they were selling on an average yield basis of 5.48 per cent. This represents the highest yield basis and the lowest average price since November 1935.

## New Financing

Total new security financing during September amounted to approximately $400,000,000, but the considerable increase over the August total reflected a large block of short term State of New York notes which were allotted to a group of banks, exchanges of securities by several companies for those of other companies, and a number of other issues offered privately or to stockholders of corporations. The amount of new securities offered publicly in September was comparatively small and actual sales of the securities offered to stockholders were restricted by the unsettlement in the stock market.

Because of their size and relative importance, interest centered to a considerable extent in three of the larger issues of securities which were offered to stockholders for subscription, namely $25,300,000 Allis-Chalmers Manufacturing Company 4 per cent convertible debentures, $44,200,000 Pure Oil Company 5 per cent preferred stock, and $48,000,000 Bethlehem Steel Corporation 3½ per cent convertible debentures. In general the weakness in the stock market operated against the successful flotation of such issues. The larger part of the Allis-Chalmers issue for which stockholders' rights to subscribe expired September 22, however, was taken by stockholders and the remaining part was reoffered by the underwriting syndicate and rather quickly disposed of; subsequently market quotations have advanced above the issue price. With respect to the Pure Oil Company issue it was reported in the press that stockholders took only about 2 per cent of the issue by the expiration date of the rights, September 24, leaving a large amount to be reoffered by the underwriting syndicate at some future date. Subscriptions by stockholders to the Bethlehem Steel issue, rights for which expire October 1, were also indicated to have been slow. Furthermore, it was reported that the receding stock market had caused the abandonment or deferment of several prospective stock issues.

The investment demand for new short term, high grade securities was generally indicated as being active, and in fact the distribution of some longer term high grade bonds proceeded satisfactorily, accompanying the general steadiness in prices of outstanding high grade bonds. The New York State $100,000,000 short term budget notes which were allotted to a large number of banks and banking houses included $50,000,000 of 6 month maturity being sold at 0.70 per cent and $50,000,000 of 7 month maturity at 0.75 per cent; these securities subsequently advanced in the market to a yield basis of 0.50 per cent and 0.55 per cent, respectively. Likewise, the $19,900,000 of Federal Intermediate Credit Bank short term debentures which were offered publicly were quickly oversubscribed and advanced to premium prices. An issue of $8,500,000 of first mortgage 4 per cent 30 year bonds of Ohio Edison Company which reached the market on September 29 was satisfactorily floated and quotations held around the issue price.




**Volume of New Capital Issues, Excluding Refunding Issues (Moody's Investors Service data; latest figures are for August)**

During recent months, a number of the new security flotations have been at least in part for the purpose of raising capital for the creation of additional plant or equipment and others have been for other new capital purposes, such as the supplying of additional working capital. In this connection, the accompanying diagram shows the amount of new capital issues of corporations and States and municipalities, other than those for refunding of outstanding securities, during each month of the past three years compared with the monthly average of previous years. The data are those of Moody's Investors Service, classifying the issues as productive, i.e., where the proceeds are used to finance the creation of new facilities such as plant and equipment, or as nonproductive, which includes securities floated with a view to repayment of bank loans, increases in working capital, and other purposes such as the acquisition of existing plants. The amount of new security issues for "productive" purposes has shown a slow and somewhat irregular recovery from the low level of 1933, and in the first eight months of 1937 averaged about $100,000,000 a month. This is, however, considerably below the monthly totals of between $250,000,000 and $300,000,000 of new productive issues which the diagram indicates were floated in the years 1924 to 1930, and the volume of such issues has recently declined considerably, accompanying unfavorable market conditions.

## Foreign Exchanges

During the early part of September, a renewal of tension in Europe over the Mediterranean situation induced a flight of funds to the United States, which was reflected in a weakening of quotations for foreign currencies in New York. Later, in the third week of the month, some forced liquidation of American securities by foreigners, and the conversion of the proceeds into European currencies served to bring the decline in foreign currencies to a halt.

The French franc was the currency most affected by the Mediterranean situation. During July and the first part of August the franc had been moderately firm following the covering of short positions immediately after the establishment of the "floating franc" on July 1. Throughout the last half of August, French capital neither left nor returned to France on balance, as it awaited the outcome of the fiscal reforms undertaken by Finance Minister Bonnet. In September, however, the international political tension stimulated a renewal of pressure against the franc, which was accentuated by discouragement over the prospects of French fiscal and economic recovery when it was learned that the Treasury had been required to borrow directly from the Bank of France. The French stabilization fund was reported to have been used at first to support the franc rate in the face of this capital flight, but finally the currency was allowed to fall from $132^{15}/_{16}$ francs per pound sterling to $146\frac{7}{8}$ francs which was reached on September 16. From this level, a recovery to $144\frac{5}{8}$ was brought about in the week following, and this level was sustained through the rest of the month. In New York, the franc moved from $\$0.0373\frac{7}{8}$ at the beginning of the month to $\$0.0336\frac{7}{8}$ on September 16, and back to $\$0.0342\frac{5}{8}$ by the month end.

The depreciation of the French franc, which at its lowest quotation of $\$0.0336\frac{7}{8}$ in the course of trading on September 16 approached the exchange value of the Belgian currency awakened fears of Belgian losses from French competition in foreign markets. These fears, and the disturbed political situation in Belgium, accelerated the rate of capital outflow from Belgium temporarily, forcing the spot rate for the belga to the lower gold point for the greater part of the month, and the forward rates to a discount equivalent in three month contracts to $2\frac{7}{8}$ per cent per annum. Toward the end of the month, however, the spot rate recovered to $0.1684 and the discount in three month belgas to the equivalent of $1\frac{3}{4}$ per cent per annum.

Sterling declined gradually during the first part of September, in continuation of the movement begun in mid-August, and as a result of the political disturbances in Europe in addition to those in the Far East. Increasing speculative selling of French francs against sterling and some selling of American securities by those with open speculative positions in English securities to support, however, halted this tendency. The pound reached a low of $\$4.94\frac{5}{8}$ on September 10, from $\$4.96^{9}/_{16}$ on September 1, and fluctuated within that narrow range for the rest of the month. The cessation of Japanese engagements of gold for shipment to the United States and the arrival of one direct shipment in London removed a source of strength for sterling in the New York market, since part of the proceeds of previous gold sales in the United States were reported to have been used to purchase sterling, and the seasonal increase in British imports from the United States also tended to strengthen the dollar. The discount on three month sterling which, at the equivalent of $1\frac{1}{8}$ per cent per annum at the beginning of September, had more than compensated those moving capital from London to New York for the differences in short term money rates between New York and London narrowed to $\frac{1}{2}$ per cent by gradual stages through the month, and lessened the inducement for British funds to be transferred to New York.

The Dutch guilder fell from $\$0.5515\frac{1}{2}$ on September 1 to $0.5501 on September 10, and rose to $0.5530 on September 24, under the impact of the same basic influences affecting the pound, i.e., the flight of capital to New York early in the month, and the sale of dollars to support open positions in securities, plus Belgian and French speculative purchases of guilders, during the last two weeks. The Swiss franc fluctuated within a narrow range during the month, while the Far Eastern exchanges remained pegged.

## Gold Movement

The movement of gold to the United States during September continued considerably below the June volume. Incoming shipments going directly into the gold stock totaled $110,200,000. The chief source of imports was Japan, from which country $40,700,000 was received on the West Coast, increasing the total of imports from that country since March to $171,000,000. In addition, $2,300,000 was received on the West Coast from Australia during September. At New York, $32,900,000 was imported from England, $13,900,000 from Canada, $13,600,000 from Belgium, $4,700,000 from India, and $2,100,000 from Colombia.

These imports, supplemented by approximately $18,300,000 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 gold stock during the month of about $175,000,000. The Treasury's daily statement of September 29 showed $1,202,600,000 of "inactive gold" held in the general fund, a net reduction of $132,300,000 from the end of August, reflecting the transfer of $300,000,000 to the Reserve Banks on September 13, partly offset by the month's increase in the gold stock detailed above.

## Central Bank Rate Changes

Following reductions from 6 to 5 per cent in July and to 4 per cent in August, the Bank of France lowered its official discount rate to $3\frac{1}{2}$ per cent effective September 3. At the same time the rate for 30 day advances on short term Government securities was reduced from 4 to $3\frac{1}{2}$ per cent and the rate for 3 month advances from 5 to $4\frac{1}{2}$ per cent.

The reduction on July 15 in the Bank of Japan's rate of discount from 3.65 to 3.285 per cent, reported in the August 1 Monthly Review, was for bills with Government bonds as collateral rather than for commercial bills, the rate for which has remained at the 3.285 per cent rate established on April 7, 1936. Effective September 21, the rate of discount for bills with Government bonds as collateral was further lowered to 2.92 per cent, and the rate for overdrafts in current account was simultaneously reduced from 4.38 to 4.02 per cent.

## Building

The August total of building and engineering contracts in the 37 States covered by the F. W. Dodge Corporation report showed a reduction of approximately 11 per cent from the preceding month. As is indicated in the table below, the largest declines occurred in factory building and in public utility construction, both of which classifications had shown unusually large advances in June and July. Residential building also showed some decline from July to August.

As compared with a year ago, residential building in August was 27 per cent lower, representing the first year to year decline that has occurred in this type of building since December 1934. This decrease may be largely explained by the fact that the residential figures for August 1936 included an unusual volume of public projects, amounting to nearly $32,000,000, whereas such projects were less than $1,000,000 in August 1937. With the exception of public works, all other major classes of construction contracts were larger in August of this year than a year ago.

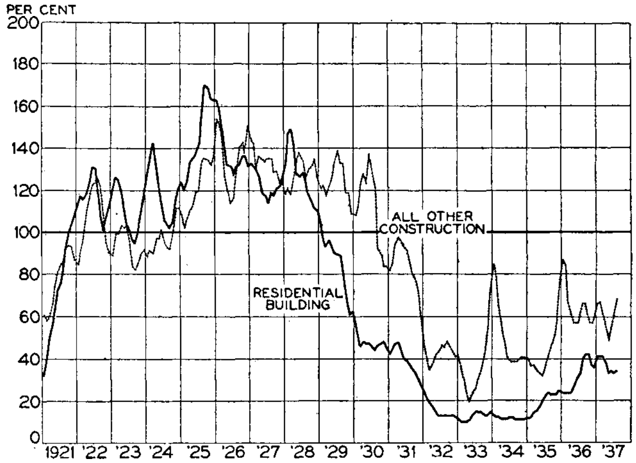
Percentage Change in Average Daily Contracts

| | 37 States August 1937 compared with | | N.Y. and Northern N.J. August 1937 compared with | |
|---|---|---|---|---|
| | July 1937 | Aug. 1936 | July 1937 | Aug. 1936 |
| *Building* | | | | |
| Residential | −9 | −27 | +12 | −42 |
| Commercial and factory | −23 | +83 | +41 | +79 |
| Public purpose* | −1 | +15 | +88 | +59 |
| All building | −13 | +5 | +43 | +2 |
| *Engineering* | | | | |
| Public Works | +20 | −17 | +11 | −26 |
| Public Utilities | −37 | +75 | −74 | −4 |
| All engineering | −8 | 0 | −53 | −18 |
| All Construction | −11 | +4 | −13 | −6 |

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

Data for the first three weeks of September indicate a continued decline in construction activity. The daily rate of total construction awards was approximately 25 per cent below the August average, and contraseasonal decreases occurred in each of the major classifications. Compared with the corresponding period in 1936, total contracts were 20 per cent lower. Residential building was down 27 per cent and heavy engineering work was 30 per cent lower, while other nonresidential building showed an increase of 3 per cent.

The accompanying diagram indicates the course of residential building and all other construction in the 37 States from 1921 to date. The lines represent this bank's indexes of building and engineering contracts, adjusted for seasonal variation and for estimated changes in construction costs; the indexes are expressed as percentages of the estimated long term trend and somewhat smoothed by the use of three month moving averages. During the period of expanding building activity up to 1926 residential building exceeded other types of construction rather consistently, but since 1928 the situation has been reversed and residential building has been




**Indexes of Residential Building and Other Construction (F. W. Dodge Corporation data for 37 States, adjusted for seasonal variation, estimated price changes, and long term growth)**

at a considerably lower level than all other construction. During the elapsed portion of 1937, construction activity has been maintained at a rate substantially above that of the depression years, but there has been a definite levelling out during the past year, both in residential building and in other construction.

## Employment and Payrolls

A small gain occurred between mid-July and mid-August in the number of employees engaged in manufacturing and nonmanufacturing industries reporting to the United States Department of Labor but the gain was somewhat less than usual for the time of year. Compared with August 1936 it is estimated that 1,500,000 more persons were at work and weekly payrolls were substantially higher.

In factory employment the August increase raised the Bureau of Labor Statistics unadjusted index to approximately the figure reached in May, which was the highest point since November 1929. The rise in employment between July and August, however, was less marked than in most years, although factory payrolls showed about the usual seasonal increase. During August there was a further gain in the number of employees at steel mills, while employment at automobile factories showed a considerable decline, reflecting reduced operations preceding changes in models. A net decline in the number of workers employed in the nonmanufacturing industries was largely accounted for by seasonal reduction of forces in retail establishments.

As a result of seasonal increases from July, both employment and payrolls at New York State factories were higher in August than at any time since the spring of 1930. Employment was 13 per cent and payrolls 23 per cent higher than a year ago, according to the State Department of Labor indexes.

## Commodity Prices

Prices of the principal wholesale commodities moved irregularly during the first part of September, and in general tended downward in the latter part of the month, reflecting in large part reductions in the prices of several important metals. Moody's index of 15 actively traded products at the end of September was about 5 per cent lower than at the end of August and at a new low for the year.

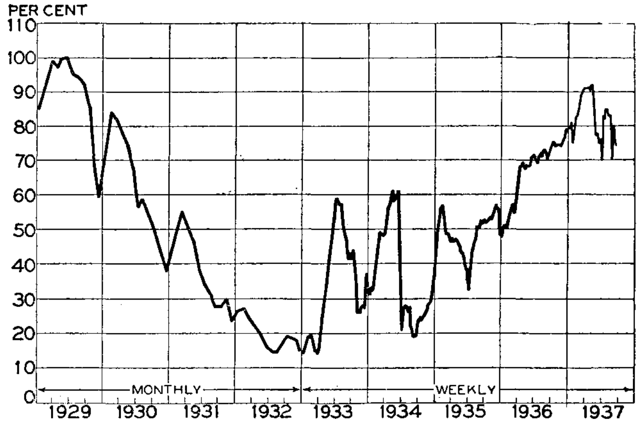
The price of scrap steel at Pittsburgh declined $4.50 during September to $17.75 a ton, the lowest price this year and $6.00 a ton below the high reached in March. Following a decline in the price of copper for sale abroad, the domestic price of copper was lowered near the end of the month from 14 cents to a range of 12½ to 13 cents a pound; the last previous change was in April when the price receded from 17 cents to 14 cents. The prices of lead, zinc, and tin also declined in the latter part of September.

In the agricultural commodities, the price of cotton continued the downward movement which has been in progress since early in April. The spot quotation for middling cotton at New York reached 8.46 cents a pound on September 30, the lowest level since May 1933, slightly more than ⅞ of a cent below the end of August, and about 6¾ cents below the March high. Rather sizable losses for the month also occurred in the prices of raw silk and sugar. On the other hand, grain prices showed small net gains for the month. The average price of steers rose to $15.13 a hundredweight on September 27, a new high since December 1928, and subsequently receded very little. The average price of hogs moved irregularly in September, and closed at $11.97 a hundredweight, somewhat above the price at the end of August, but well below the recent high reached in the early part of August.

## Production

The general level of industrial production declined in September, following some advance in the preceding month. Steel mill operations, as shown in the accompanying diagram, were reduced sharply in the week including Labor Day, and after a temporary partial recovery to 80 per cent of capacity, there was a decline to an estimated 74 per cent, approximately 16 points lower than in the spring. Steel orders were reported to have risen somewhat during September but it was indicated that the backlogs against which operations had been carried on during the summer were much reduced by the end of August. There was also a decline, of a seasonal nature, in automobile assemblies in September, as manufacturers shifted production to 1938 models. Cotton textile mill activity appears to have slackened somewhat further, and electric power production, which ordinarily increases in September, was little changed. Bituminous coal output showed a seasonal advance in the first part of the month.

An increase in the general level of industrial production in August, after allowance for seasonal factors, was indicated by the index of the Board of Governors of the Federal Reserve System. The adjusted index rose from 114 per cent of the 1923-25 average in June and July to 117 in August. A year ago the index was 108. A major factor in the rise was a much smaller decline in automobile production than in other recent years; in addition there were gains in output of steel and pig iron, and lead production and livestock slaughterings were practically unchanged, although recessions are ordinarily expected at this time of the year. There were increases of a seasonal character in bituminous coal output and electric power generation. Mill consumption of cotton




**Steel Mill Activity (Ingot output expressed as percentages of capacity)**

showed an increase in August, but after allowing for differences in number of working days and seasonal factors, the rate of cotton textile output showed a further recession. Rayon production also was reduced. The volume of machine tool orders was maintained at approximately the level of the preceding month.

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

| | 1936 | 1937 | | |
|---|---|---|---|---|
| | Aug. | June | July | Aug. |
| *Metals* | | | | |
| Pig iron | 86 | 95 | 110 | 113 |
| Steel | 101 | 94 | 113 | 115 |
| Copper | 70 | 117 | 121 | 125 |
| Lead | 58 | 63 | 73 | 77 |
| Zinc | 84 | 99 | 97 | 92 |
| *Automobiles* | | | | |
| Passenger cars | 98 | 96 | 103 | 140 |
| Motor trucks | 102 | 112 | 116 | 129 |
| *Fuels* | | | | |
| Bituminous coal | 84 | 87 | 87 | 86*p* |
| Anthracite coal | 93*r* | 100 | 64 | 70*p* |
| Petroleum, crude | 87 | 96 | 96 | 100*p* |
| Petroleum products | 89 | 91 | 94 | |
| Electric power | 95 | 97 | 97 | 99*p* |
| *Textiles and Leather Products* | | | | |
| Cotton consumption | 108 | 116 | 113 | 108 |
| Wool consumption | 117*r* | 114 | 96 | 109*p* |
| Silk consumption | 85 | 78 | 64 | 66 |
| Rayon production | 95 | 104 | 108 | 95 |
| Shoes | 114*r* | 115 | 116 | 105*p* |
| *Foods and Tobacco Products* | | | | |
| Meat packing | 96 | 76 | 69 | 77 |
| Wheat flour | 102 | 86 | 88 | 80 |
| Sugar meltings | 88 | 84 | 124 | 118 |
| Tobacco products | 89 | 82 | 95 | 93 |
| *Miscellaneous* | | | | |
| Cement | 62 | 55 | 59 | 58 |
| Tires | 84 | 67 | 65 | |
| Lumber | 70 | 81 | 77 | |
| Newsprint paper | 81 | 80 | 85 | 88 |
| Machine tools | 120 | 171 | 169 | 165 |

*p* Preliminary. *r* Revised.

## Indexes of Business Activity

During the first half of September, department store sales in the Metropolitan area of New York showed an increase from the August level at least as large as the customary seasonal movement. Railway freight car loadings also were seasonally higher.

In August, however, there appears to have been some recession in general business activity and the distribution of goods. Department store sales in the country as a whole and in this district were moderately higher than in August 1936, but the gains from July to August did not fully measure up to the usual seasonal changes. Merchandise and miscellaneous freight car loadings were little changed from the July level, but a contraseasonal recession occurred in the movement of bulk commodities. Mail order house sales were lower than in July and chain store sales also declined. A decrease of about the usual proportions occurred in the volume of check transactions outside New York City, while in New York City the recession was greater than usual. On the other hand, registrations of new passenger cars in August are estimated at 312,600 units, a decrease of only 45,000 cars from the July figure, which is considerably less than the decline in that month of most recent years. The volume of advertising was larger than in July, and sales of new ordinary life insurance policies declined somewhat less than usual.

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

| | 1936 | 1937 | | |
|---|---|---|---|---|
| | Aug. | June | July | Aug. |
| *Primary Distribution* | | | | |
| Car loadings, merchandise and misc. | 72 | 76 | 75 | 74 |
| Car loadings, other | 77 | 87 | 88 | 83 |
| Exports | 64 | 87 | 89*p* | |
| Imports | 89 | 108 | 101*p* | |
| *Distribution to Consumer* | | | | |
| Department store sales, U. S. | 91 | 91 | 90 | 89 |
| Department store sales, 2nd Dist. | 84 | 85 | 82 | 80 |
| Chain grocery sales | 72 | 62 | 64 | 62 |
| Other chain store sales | 96 | 97 | 97 | 91 |
| Mail order house sales | 93 | 98 | 94 | 87 |
| Advertising | 77 | 80 | 79 | 82 |
| New passenger car registrations | 95*r* | 96 | 95*p* | 111*p* |
| Gasoline consumption | 94 | 98 | 103 | |
| *General Business Activity* | | | | |
| Bank debits, outside New York City | 65 | 66 | 64*p* | 64*p* |
| Bank debits, New York City | 39 | 36 | 38 | 33*p* |
| Velocity of demand deposits, outside New York City | 68 | 68 | 69 | 70 |
| Velocity of demand deposits, New York City | 45 | 43 | 48 | 44 |
| New life insurance sales | 72 | 75 | 69*p* | 71*p* |
| Employment, manufacturing, U. S. | 95 | 103 | 104 | 104*p* |
| Employee hours, manufacturing, U. S. | 88 | 94 | 93*p* | 93*p* |
| Residential building contracts | 53 | 35 | 35 | 33 |
| Nonresidential building and engineering contracts | 65 | 65 | 72 | 68 |
| New corporations formed in N. Y. State | 69 | 63 | 62 | 63 |
| General price level* | 156 | 162 | 163 | 163*p* |
| Composite index of wages* | 194 | 207 | 208 | 208*p* |
| Cost of living* | 146 | 151 | 151 | 152*p* |

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

## Department Store Trade

During the first half of September, sales of the reporting department stores in the Metropolitan area of New York were 3 per cent larger than in the corresponding period a year ago, and at least the usual increase from the August level was indicated.

In August total sales of the reporting department stores in this district were 5.3 per cent higher than last year, a somewhat larger advance than in July. The New York and Brooklyn, and Northern New Jersey department stores recorded moderate increases in sales over last year, and small advances in sales were reported by the Rochester, Syracuse, Bridgeport, and Capital District stores. Sales of the Westchester and Stamford department stores were unchanged from August 1936, and in stores in the remaining localities in this district sales were smaller than last year. Sales of the leading apparel stores were 2.3 per cent lower than a year ago, a smaller recession than in the previous month.

| Locality | Percentage change August 1937 compared with August 1936 | | Per cent of accounts outstanding July 31 collected in August | |
|---|---|---|---|---|
| | Net sales | Stock on hand end of month | 1936 | 1937 |
| New York | + 6.6 | +16.5 | 41.0 | 41.6 |
| Buffalo | — 0.7 | +14.4 | 51.2 | 44.6 |
| Rochester | + 1.4 | +18.0 | 46.6 | 45.3 |
| Syracuse | + 2.2 | +14.4 | 35.3 | 37.0 |
| Northern New Jersey | + 6.4 | +21.2 | 36.4 | 37.6 |
| Bridgeport | + 0.2 | + 8.6 | 40.8 | 38.9 |
| Elsewhere | — 1.3 | + 0.1 | 33.8 | 32.4 |
| Northern New York State | —11.0 | ...... | .... | .... |
| Southern New York State | — 4.8 | ...... | .... | .... |
| Central New York State | — 1.4 | ...... | .... | .... |
| Hudson River Valley District | — 0.5 | ...... | .... | .... |
| Capital District | + 2.8 | ...... | .... | .... |
| Westchester and Stamford | 0. | ...... | .... | .... |
| Niagara Falls | — 4.8 | ...... | .... | .... |
| All department stores | + 5.3 | +16.3 | 40.3 | 40.3 |
| Apparel stores | — 2.3 | + 6.2 | 34.9 | 37.1 |

## Wholesale Trade

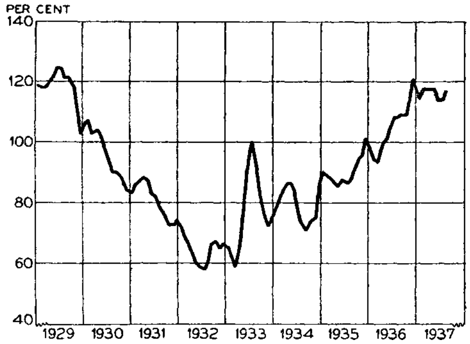
In August total sales of reporting wholesale firms averaged about 1 per cent higher than last year, following the decline reported for July. Cotton goods concerns showed the largest increase in sales since last February, the jewelry firms reported the most substantial increase in three months, and the men's clothing, shoe, stationery, and paper concerns all reported more favorable year to year comparisons than in July. Wholesale drug sales, data for which are collected and reported upon by the Department of Commerce, showed an increase of about 11 per cent over last year, following a decline in the previous month. On the other hand, yardage sales of rayon and silk goods were below the previous year for the first time in twelve months, and sales of the diamond concerns recorded the smallest advance since May of last year. The hardware firms, moreover, reported the first year to year decrease in sales since January 1936, and the grocery concerns showed the first material reduction since that month.

| Commodity | Percentage change August 1937 compared with August 1936 | | Per cent of accounts outstanding July 31 collected in August | |
|---|---|---|---|---|
| | Net sales | Stock end of month | 1936 | 1937 |
| Groceries | — 4.1 | +18.5 | 89.2 | 88.4 |
| Men's clothing | + 5.5 | ...... | 44.8 | 44.6 |
| Cotton goods | + 7.4 | ...... | 42.6 | 43.8 |
| Rayon and silk goods | — 8.1* | + 8.0* | 64.4 | 51.8 |
| Shoes | —12.7 | ...... | 36.7 | 34.3 |
| Drugs and drug sundries | +10.9** | +9.2** | .... | .... |
| Hardware | — 0.4 | +41.1 | 44.6 | 44.0 |
| Stationery | — 1.7 | ...... | .... | .... |
| Paper | +15.3 | ...... | 58.8 | 50.7 |
| Diamonds | + 9.1 | +31.3 | } 22.3 | } 18.3 |
| Jewelry | +10.4 | +11.9 | | |
| Weighted average | + 0.9 | ...... | 58.6 | 56.2 |

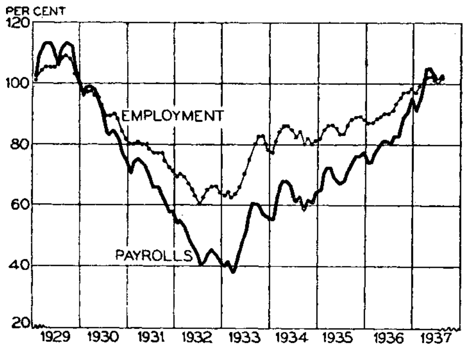
* Quantity figures reported by the National Federation of Textiles, Incorporated, not included in weighted average for total wholesale trade.
**Reported by Department of Commerce.

FEDERAL RESERVE BANK OF NEW YORK

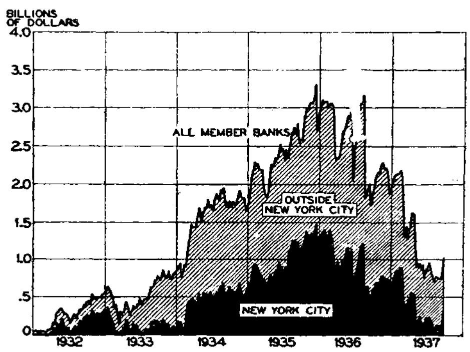
MONTHLY REVIEW, OCTOBER 1, 1937



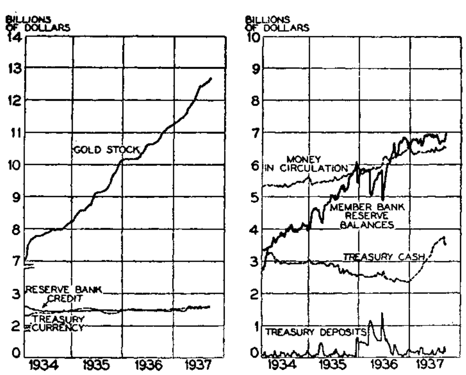

**Index Number of Production of Manufactures and Minerals Combined, Adjusted for Seasonal Variation (1923-25 average = 100 per cent)**




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




**Excess Reserves of Member Banks (Latest figures are for September 22)**




**Member Bank Reserves and Related Items (Latest figures are for September 22)**

## Business Conditions in the United States

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

In August industrial activity advanced from the level of the two preceding months and on a seasonally adjusted basis was close to the volume of last spring. Early reports for September indicate a decline in steel output and a seasonal decrease in the production of automobiles.

### Production and Employment

Volume of industrial production, as measured by the Board's seasonally adjusted index, was 117 per cent of the 1923-1925 average in August as compared with a level of 114 per cent in June and July and 118 per cent during the spring. Steel production rose slightly further and was close to the high level prevailing before strikes curtailed output in June. Automobile production was maintained in considerably larger volume than is usual in the month preceding the shift to new model production. Lumber output declined, following a period of increase. In the nondurable goods industries output increased in August, reflecting chiefly increases at cotton and woolen textile mills, following considerable declines in the preceding month. Activity at meat packing establishments increased somewhat from an extremely low level. Shoe production showed less than the usual seasonal rise. At mines, output of coal increased less than seasonally, while crude petroleum production continued to expand.

Value of construction contracts awarded, as reported by the F. W. Dodge Corporation, declined somewhat in August and the first half of September. Awards for private residential building showed little change and were in about the same volume as in the corresponding period of 1936, while publicly financed residential building declined and was in considerably smaller volume than last year.

Factory employment, which had increased in July, showed less than a seasonal rise in August. Factory payrolls increased by about the usual seasonal amount. The number employed at steel mills increased somewhat further, while at automobile factories, railroad repair shops, and sawmills employment declined. In the textile industries employment in the production of fabrics decreased somewhat, while employment in the production of wearing apparel increased. Changes in employment in most other manufacturing industries were small.

### Agriculture

Department of Agriculture crop estimates based on September 1 conditions were about the same as the estimates a month earlier, except for an increase in cotton and a decrease in corn. Output of leading crops is substantially larger than last season. Supplies of livestock and meats are expected by the Department of Agriculture to continue smaller than last year.

### Distribution

Mail order sales and sales at department stores showed somewhat less than the usual seasonal increase from July to August. Freight car loadings continued at the level of the previous month.

### Commodity Prices

Cotton prices declined considerably further from the middle of August to the third week of September and there were smaller decreases in cotton goods, silk, hides, steel scrap, copper scrap, and lumber. Prices of livestock and livestock products, after some decline in the latter part of August and the first week of September, advanced sharply in the middle of September.

### Bank Credit

Excess reserves of member banks increased in the five week period ended September 22 from $800,000,000 to $1,000,000,000 as the result of a release of gold by the Treasury from its inactive account. The bulk of the increase in excess reserves went to New York City banks and on September 22 these banks had excess reserves of $350,000,000, Chicago banks had $50,000,000, and banks elsewhere $600,000,000.

Commercial loans at reporting member banks in 101 leading cities, reflecting in part seasonal demands, continued to increase substantially during the four weeks ended September 15, both in New York City and outside. Holdings of United States Government obligations and of other securities showed a further decrease, with the result that total loans and investments declined somewhat.

### Money Rates

Rates on 9 month Treasury bills declined from 0.71 per cent early in September to 0.44 per cent later in the month, and average yields on long term Treasury notes declined from about 1⅝ per cent to below 1½ per cent.