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

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

## Money Market in October

The downturn in prices of stocks and lower grade bonds, which started around the middle of August and continued through September, gained momentum in the early part of October and the subsequent drastic decline was not checked until October 19. This decline, together with the preceding recession from March to June, constitutes the most severe decline since the recovery in security prices started in the summer of 1932 and in its latter stages was one of the sharpest declines of record. At the lowest levels reached in October, average prices of the various groups of stocks were 40 to 50 per cent or more below the highest levels reached early in the year. In many cases prices of the lower grade bonds showed declines of nearly the same magnitude.

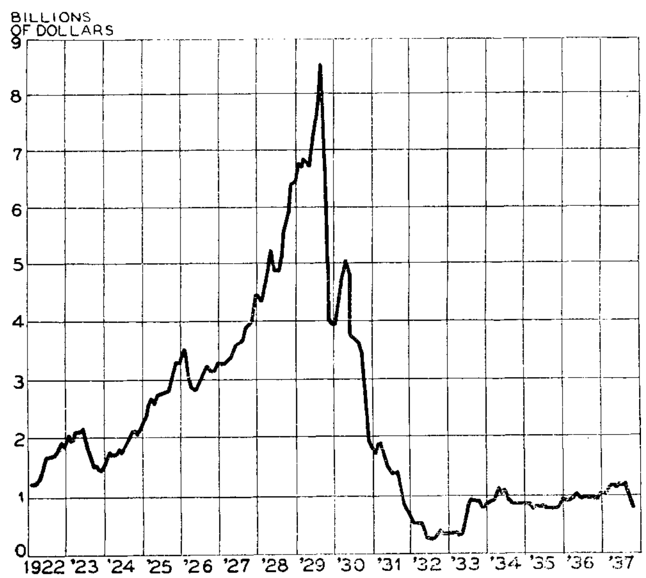
The behavior of the market for these securities has had an adverse effect upon the continued financing of the capital needs of business. New security issues by corporations to provide new capital for expansion or improvement of plants and equipment, or to provide additional working capital, had been taking the form increasingly of stocks or convertible bonds, and the drastic decline in prices of outstanding securities of those types made it impracticable to continue flotations of such securities and distribution of issues previously announced was impeded. In fact, the issue of all types of new securities was for a time practically at a standstill.

Accompanying the decline in stock prices, there has been a continued shrinkage in the volume of loans made by New York City and other banks to finance the purchase or carrying of securities. Between the latter part of August and October 27, loans to security brokers and dealers by New York City banks declined about $360,000,000, and there was a decline in such loans by weekly reporting member banks in other principal cities of about $25,000,000 up to October 20. In addition there have been smaller declines in bank loans to individual customers to finance security trading. While the recent reduction in brokers loans has been quite moderate in amount as compared with the shrinkage in such loans during earlier periods of drastic declines in security prices, it represents a decline of nearly 35 per cent, and has been sufficient to carry the volume of loans outstanding near the end of October down to the lowest level since the autumn of 1935.

On October 27 the Board of Governors announced amendments of its Regulation T and issued supplements to its Regulations T and U, which, among other changes, increased the maximum loan value of registered securities for loans made to finance the purchase or carrying of such securities from 45 per cent to 60 per cent, effective November 1, and at the same time required a margin of 50 per cent against "short" sales. Brokers' borrowing capacity was enlarged by an increase, from 60 to 75 per cent, in the maximum loan value of customers' securities which they pledge as collateral for loans from banks.

The accompanying diagram shows changes in the amount of funds borrowed by members of the New York Stock Exchange for the past 16 years, with estimated figures for the end of October (and also for the years 1923 to 1925), based on reports from New York City member banks on the amount of their loans to security brokers and dealers. As this diagram indicates, the volume of borrowing by members of the New York Stock Exchange showed no such expansion during the rapid rise in stock prices from the spring of 1935 to the spring of 1937 as in previous periods of rapidly rising security prices. The advance in prices appears to have resulted to a large extent from cash buying, so that the amount of credit liquidation that has accompanied the recent fall in stock prices has been correspondingly limited.

Commercial loans of weekly reporting member banks in New York City and elsewhere showed some further increase during the first half of October, but were re-




**Borrowings in New York City by Members of New York Stock Exchange (Figures for end of October and for 1923-25 estimated)**

duced in the latter part of the month, partly through the use of the proceeds of recent security issues to pay off bank loans. Government security holdings of the principal New York City banks, after declining about $1,250,000,000 between July 1, 1936 and the third week of September, 1937, have since shown little change. The expansion in commercial loans has partly counterbalanced the reduction in Government security holdings during the past year, and in recent weeks the principal cause of shrinkage in bank credit has been the decline in brokers loans.

Weekly reports from member banks in the Second District outside New York City, have shown practically no net change in the volume of loans and investments or in the volume of deposits since the beginning of this year, and it appears that in other parts of the country also there has been practically no shrinkage in the volume of bank credit and deposits outside a few of the larger cities. Except in the New York City banks, brokers loans are no longer an important element in the earning assets of the banks, so that the possibility of shrinkage in bank credit from the liquidation of such loans during a period of falling security prices is much less than in earlier years.

### Member Bank Reserves and Money Rates

Money market conditions have remained easy throughout the past month, reflecting the more comfortable reserve position of the New York City banks, following the release of $300,000,000 from the inactive gold account and the disbursement of the proceeds by the Treasury in the second half of September. Excess reserves of the large New York City banks, which in the early part of August and again in the early part of September had declined to such small proportions that some banks found it necessary to borrow reserves from others temporarily, rose well above $400,000,000 by the end of September. During the early part of October there was a seasonal demand for currency and the usual outflow of funds to other districts, which apparently is related largely to interest and dividend disbursements by large corporations, but the volume of excess reserves in New York did not fall below $250,000,000, and in the latter part of the month a return flow of funds from other districts again raised the volume above $400,000,000. For all member banks excess reserves have fluctuated between slightly under $1,000,000,000 and close to $1,100,000,000 throughout the month.

Reflecting the ample supply of funds and the absence of new Treasury borrowing through bills, yields on Treasury bills declined slightly further during October and other short term money rates remained at the previous low levels. Yields on 1 to 5 year Treasury notes also declined slightly, and yields on long term Government and high grade corporation bonds showed little change.

### Government Securities

Between the end of September and October 18 United States Treasury bonds were steady to firm, and for this period as a whole a net advance of nearly ¼ point occurred in average prices. On October 19 when the selling wave in stocks and lower grade bonds reached its culmination, there was an accompanying decline in Treasury bond prices averaging more than ½ point.

Money Rates in New York

| | Oct. 31, 1936 | Sept. 30, 1937 | Oct. 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 | 1.58 | 1.67 |
| Average yield on Treasury notes (3-5 years) | †1.13 | †1.45 | †1.37 |
| Average yield on Treasury bonds (more than 8 years to maturity or call date) | ‡2.42 | ‡2.65 | ‡2.63 |
| Average rate on latest Treasury bill sale 273 day issue | 0.12 | 0.38 | .... |
| 140 day issue | .... | .... | 0.26 |
| 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
† Substituted for series 1 to 5 years previously used.
‡ Substituted for series due or callable after 5 years previously used.

but a partial recovery occurred before the end of the day, and more than half of the loss was regained in the following two days. A further moderate advance occurred later in the month, so that by the end of October Treasury bond prices were back to the October 18 quotations and consequently were somewhat higher than at the end of September. The average yield on Treasury bonds due or callable after 8 years was 2.63 per cent on October 30, as compared with 2.65 per cent at the end of September. Movements of Treasury notes during October were generally similar to those in Treasury bonds and prices showed net gains for the month as a whole; the average yield on 3 to 5 year Treasury notes was 1.37 per cent at the end of October, as against 1.45 per cent at the close of September.

During the first three weeks of October the Treasury continued to issue $50,000,000 of 273 day Treasury bills each week to replace similar maturities, but in the last week of the month substituted an issue of $50,000,000 of bills maturing March 16, 1938, in replacement of the maturity of 273 day bills. The bills maturing in the March quarterly tax period together with further contemplated issues of bills to mature around this date will on maturity serve to offset funds taken out of the money market by March, 1938 income tax collections. The average rates at which the 273 day bills were sold during October moved progressively lower, reaching 0.362 per cent for the issue dated October 20, the lowest rate at which this maturity of bill had been sold since January, and the rate on the shorter term bill issue dated October 27 was 0.261 per cent.

### Bills and Commercial Paper

Activity in the bill market remained in small volume during October, owing to the limited quantity of bills becoming available to dealers for resale. No changes occurred in the rate structure of the bill market.

The amount of bills outstanding at the end of September was practically unchanged from the August total, but $29,000,000 above the September, 1936 outstandings. Further small increases in outstandings of export bills and domestic warehouse credits during September were offset by continued declines in import acceptances and bills based on goods stored in or shipped between foreign countries. As compared with a year ago the only classification to show a material decrease is bills based on goods stored in or shipped between foreign countries which are outstanding in the smallest volume since July, 1927. Accepting banks and bankers held $274,000,000 or approximately 80 per cent of all bills outstanding at the end of September, compared with 77 per cent at the end of August.

(Millions of dollars)

| Type of acceptance | Sept. 30, 1936 | Aug. 31, 1937 | Sept. 30, 1937 |
|---|---|---|---|
| Import | 107 | 134 | 127 |
| Export | 64 | 71 | 77 |
| Domestic shipment | 10 | 10 | 11 |
| Domestic warehouse credit | 56 | 58 | 62 |
| Dollar exchange | 2 | 2 | 1 |
| Based on goods stored in or shipped between foreign countries | 76 | 69 | 66 |
| Total | 315 | 344 | 344 |

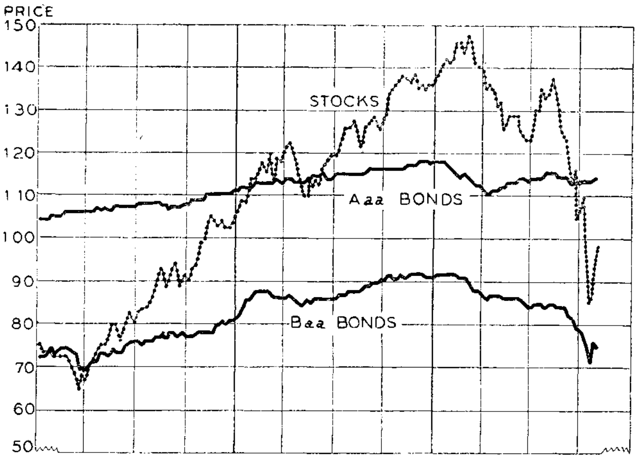
Open market commercial paper continued to be in active demand during October. Meanwhile, available supplies of new drawings were reported to have been somewhat less than in the previous month. Average grade prime 4 to 6 month commercial paper continued to be quoted at 1 per cent. Commercial paper houses reported a total of $331,000,000 of paper outstanding at the end of September, compared with $329,000,000 at the end of August, and $197,000,000 a year ago.

## Security Markets

The large declines in prices of stocks and lower grade corporation bonds during October represented a continuation, at an accelerated pace, of the recession of the previous month and a half. The decline in stock prices between the end of September and October 18, the day on which prices were at their lowest closing quotations, amounted to 22 per cent, as compared with a decline of about 21 per cent between August 14 and September 30. Closing prices on October 18 were 42 per cent below the 1937 high which was reached in March, and were at levels which represented the cancellation of three-fourths of the two year advance in stock prices between March, 1935 and March, 1937. Railroad stocks as a group declined to less than one-half of their peak prices of last March, and the declines in industrial and public utility stocks were only moderately less drastic. The turnover of stocks on the New York Exchange reached a maximum of 7,300,000 shares on October 19, reflecting heavy selling pressure during the early part of the day when prices dropped even lower than on the 18th. This volume of sales was the largest for any day since July, 1933.

After the initial price declines on the 19th, there were substantial recoveries on that day and on the following two days. Thereafter, alternate declines and advances of rather wide proportions characterized the trading through the 27th, at which time the average level of share prices was some 9 per cent above the lowest closing quotations of the month. Following the announcement by the Board of Governors late that day of an increase in the maximum loan value of stocks for margin accounts, the general movement of stock prices during the remainder of the month was upward, with the result that the recovery in share prices was increased to 15 per cent.

Fluctuations in corporate bonds, other than the highest grade investment issues, corresponded to movements of stock prices, since both classes of securities are largely subject to the same influences. The group of bonds rated




**Movements of Stock and Bond Prices (Standard Statistics Company index of 90 stocks, and Moody's Investors Service average prices of Aaa and Baa corporation bonds)**

Baa by Moody's Investors Service declined almost 8¼ points further between October 1 and October 19, following a recession of over 4¾ points during the preceding month, and reached a level about 21 points below the highs of last January. Railroad bonds of this class were especially weak. In the subsequent part of October there was a net recovery of about 3¾ points in the Baa bonds, leaving a net decline of about 4½ points for the month. The highest grade corporation bonds, those rated Aaa, showed virtually no change until October 19 when the decline amounted to only ½ point, and this loss was quickly regained.

The stability of the market for high grade bonds, in contrast with the severe declines in prices of lower grade bonds and in stock prices, is shown in the accompanying diagram.

## New Financing

As a result of the unsettlement in the security markets, the flotation of new issues during October was sharply curtailed. Between October 9 and October 27 the only corporate security issues offered in the New York market were two relatively small issues of railroad equipment trust obligations. Awards of municipal and State obligations also were in reduced volume. During the first week of the month, however, three large corporate issues totaling over $86,000,000, including a high grade preferred stock issue and two bond issues with fairly high ratings, were successfully marketed, and on October 28 a $13,000,000 issue of high grade notes was announced and successfully distributed. Market conditions were generally unfavorable, however, to the flotation of lower grade securities. The month's total of corporate, farm loan, and municipal issues was approximately $200,000,000, of which some $52,000,000 was temporary tax anticipation municipal borrowing and Federal Intermediate Credit Bank short term debentures, $71,000,000 refunding, and the remaining $77,000,000 for medium or long term new capital, of which nearly $33,000,000 was to repay bank loans. The October total is the smallest for any month since February, 1935, with the exception of last August.

The large corporate new issues referred to above were the following:

| Amount | Issuer | Kind of Security | Rate | Price |
|---|---|---|---|---|
| $48,364,000 | Central New York Power Corp. | Gen. Mtge. Bonds of 1962 | 3¾ | 99 |
| 20,000,000 | Continental Can Co. | Preferred Stock | 4½ | 100 |
| 18,000,000 | Idaho Power Co. | First Mtge. Bonds of 1967 | 3¾ | 98½ |
| 13,000,000 | North Boston Lighting Properties | Secured Notes of 1947 | 3½ | 100 |

On October 5 the underwriters reoffered $46,003,300 Bethlehem Steel Corporation 3½ per cent convertible debentures of 1952 for public sale at 95½. During September the original issue of $48,000,000 had been offered at 100 to holders of the corporation's common stock, but only $1,996,700 had been subscribed. A further discount in market quotations appeared shortly after the public reoffering and sales in the market were reported at around 78; subsequently quotations recovered to above 85, accompanying some recovery in the stock market, and a gradual distribution of the issue has been taking place.

Holders of $16,381,000 New York, Chicago, and St. Louis Railroad Company first mortgage 4 per cent bonds maturing October 1, 1937, were offered an option of being paid in cash or of receiving a small cash premium and bonds extending the maturity of the mortgage to 1947 with a reduction in the coupon rate to 3½ per cent. Public offering was made of approximately $5,000,000 of the 3½'s of 1947, representing the proportion of holders of the maturing 4's who elected to be paid in cash.

During the month a number of offerings in process of registration with the Securities and Exchange Commission were deferred or withdrawn, including $8,000,000 of St. Joseph Railway, Light, Heat, and Power Company bonds and notes, $67,000,000 of Appalachian Electric Power Company bonds and debentures, and $80,000,000 of Consolidated Edison Company debentures, and several smaller issues. In connection with the Consolidated Edison issue, it was announced that the Company had discarded plans to refund $60,000,000 of outstanding bonds, but would later borrow $30,000,000 for new capital purposes, instead of the $20,000,000 originally scheduled.

## Foreign Exchanges

Fluctuations of considerable magnitude continued in the French franc during October, but for the month as a whole a substantial gain was made. In the first two days of October the franc continued the depreciation of September, reaching $0.0328½ on October 2, or the lowest level since 1926. From that quotation it recovered, at first gradually and during the second and third weeks of the month rather rapidly; some French capital repatriation in addition to short covering was indicated as contributing to the movement. The strength in the franc, which raised quotations in the New York market to $0.0338¾ and permitted the French authorities to make substantial purchases of gold and foreign exchange, reflected the more optimistic view taken by French capital of the internal political and economic situation, partly as a result of the cantonal elections of October 10 and October 17, partly because of the announcement of a loan of 200,000,000 Swiss francs made by a Swiss consortium to the French railways for a two year period, and was favored as well by the apparent progress made toward a European nonintervention agreement up until the last week of the month. On October 25, however, a reaction occurred, apparently as a result of a setback to the nonintervention conference and of internal political developments, during which the franc fell as low as 149 francs to the pound in London, and $0.0333¼ in New York. A month-end recovery brought the New York quotation up to $0.0337⅛.

The pound sterling fluctuated within a narrow range during most of the month, after starting on October 1 at $4.95 7/16, but rose during the last week from $4.95 1/16 to $4.96½. A decline from $4.96 on October 15 to $4.95 1/16 on October 25 was attributed in part to sales of sterling for the purpose of buying American securities, while the subsequent recovery from that level was occasioned primarily by sales of dollars in London for Swiss, Dutch, and Scandinavian account, and also by Japanese purchases of sterling with the proceeds of renewed gold sales in the United States.

In the London market, the price of gold, which had gone to a premium over the shipping parity to New York toward the end of September for the first time since March, gradually rose during the month, the demand for gold emanating both from hoarders and from European official sources. The dollar equivalent of the London gold price was consistently quoted at or above $34.82, and reached $34.86 at the month end. As a consequence, no engagements of gold in London for shipment to the United States were arranged during October.

The guilder and the Swiss franc were both strong against the dollar during October, the former being quoted consistently close to $0.5529½, while the latter rose from its former high of $0.2297½ at which it had started the month, to $0.2306 on October 21, and to $0.2312½ at the month end. In the forward market, the Swiss franc moved from a discount equivalent on three month quotations to 5/16 per cent per annum on October 1 to a premium equivalent to ⅜ per cent per annum at the month end. The belga was weak at the first of the month along with the French franc, and it was reported that foreign capital continued to leave Belgium when the resignation of the Van Zeeland cabinet took place on October 25.

The Brazilian free milreis fell continuously during October after weakening sharply on September 28, and was quoted here at $0.0560 at the end of October as compared with $0.0640 before the movement began. The reduced supply of coffee bills and weakness in cotton prices in foreign countries both contributed to the decline. No developments occurred in the Far Eastern exchanges which remained pegged and fluctuated only narrowly throughout the month.

## Gold Movement

The net amount — about $60,000,000 — by which the United States gold stock was augmented in October showed a substantial decline from recent months. Increased demands for gold in the London market, which raised the dollar equivalent of the London gold price to a sustained premium above the shipping parity to New

York, was an important factor in the reduced inflow of gold to the United States. Also Japanese shipments to the United States ceased for a while, and despite a resumption, totaled less than in the preceding month.

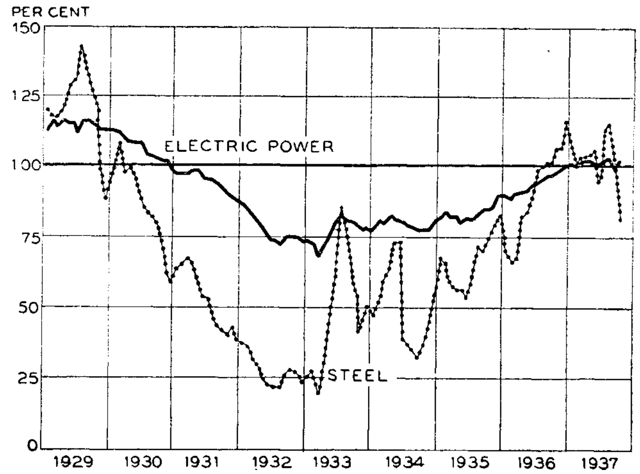
Imports going into the gold stock totaled $61,300,000 for October of which $20,200,000 arrived at New York from Belgium, $8,900,000 from Canada, $6,100,000 from India, and $4,300,000 from England, and on the West Coast, $19,900,000 from Japan, and $1,900,000 from Australia. In addition, there was a release of $6,400,000 of gold from earmark for foreign account. The difference between the aggregate gain in imports and releases from earmark and the rise of $60,000,000 in the gold stock indicated above is to be explained by a net loss in other transactions. The Treasury's daily statement of October 29 showed $1,270,100,000 of "inactive gold" held in the general fund.

## Production

The declining tendency in the general level of industrial production, which was evident during September, extended into October in certain leading industries. Steel production continued its sharp decline, and at the end of the month mill operations were estimated at about 51 per cent of capacity as compared with 90 per cent or slightly more during the spring. The decline was generally attributed to a low level of incoming steel orders, as steel consumers sought to reduce previously accumulated inventories. The accompanying diagram shows this bank's index of steel production in which adjustment is made for seasonal variation and the long term trend of growth. The index as estimated for October is the lowest since March, 1936, though substantially above the general levels of the five years preceding 1936. Cotton textile mill activity was also reported to have declined in October, contrary to the usual movement, and bituminous coal output during the first three weeks of the month rose less than in most other years. Automobile plants were considerably more active, however, as assemblies of 1938 models gathered momentum.

A more general indication of changes in productive activity is afforded by the index of the use of electricity for industrial, commercial, and other than residence purposes, which is shown in the diagram with the index of steel production, and is also adjusted for seasonal variation and the growth trend of the industry. Electricity sales for these uses, while affected at times by some other factors as well, are responsive to changes in industrial activity of a general nature. This index shows figures for September and October only moderately below the average of the first eight months of the year and slightly above a year ago.

In September, steel production fell to an average of 76½ per cent of capacity from 84 per cent in August, daily copper output was reduced 8 per cent, lead production was lower, and cotton consumption failed to increase as in most other years. Several sugar refineries were reported to have shut down temporarily during September, owing to an excessive accumulation of inventories, and sugar meltings were cut to less than half the August figure. On the other hand, the decline in automobile assemblies was of a seasonal nature; expansion took place in coal mining, in zinc smelting operations, and livestock slaughterings; and rayon production, mill consumption of silk, and tobacco manufacturing were well maintained. Orders received for machine tools, owing to demand from abroad, were larger than in August. The seasonally adjusted index of industrial production computed by the Board of Governors of the Federal Reserve System declined to 111 per cent of the 1923-25 average in September, as compared with 117 in August, and 109 in September, 1936.




**Indexes of Production of Steel Ingots and of Sales of Electricity for Other than Residence Consumption, Adjusted for Seasonal Variation and Long Term Growth (Steel data for October and electricity data for September and October estimated from weekly data)**

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

| | 1936 | 1937 | | |
|---|---|---|---|---|
| | Sept. | July | Aug. | Sept. |
| *Metals* | | | | |
| Pig iron | 91 | 110 | 113 | 113 |
| Steel | 101 | 113 | 115 | 103 |
| Copper | 94 | 121 | 125 | 110 |
| Lead | 53 | 73 | 77 | 67 |
| Zinc | 83 | 97 | 92 | 97 |
| *Automobiles* | | | | |
| Passenger cars *r* | 112 | 98 | 140 | 145 |
| Motor trucks *r* | 111 | 116 | 129 | 124 |
| *Fuels* | | | | |
| Bituminous coal | 88 | 87 | 86 | 91*p* |
| Anthracite coal | 78r | 64 | 70 | 73*p* |
| Petroleum, crude | 85 | 96 | 100 | 98*p* |
| Petroleum products | 90 | 94 | 94 | |
| Electric power | 94 | 97 | 99 | 96*p* |
| *Textiles and Leather Products* | | | | |
| Cotton consumption | 108 | 113 | 108 | 102 |
| Wool consumption | 100r | 96 | 106 | 85*p* |
| Silk consumption | 84 | 64 | 66 | 67 |
| Rayon production | 91 | 108 | 95 | 95 |
| Shoes | 111r | 116 | 105 | 87*p* |
| *Foods and Tobacco Products* | | | | |
| Meat packing | 94 | 69 | 77 | 82 |
| Wheat flour | 77 | 88 | 80 | 83 |
| Sugar meltings | 83 | 124 | 118 | 54 |
| Tobacco products | 94 | 95 | 93 | 93 |
| *Miscellaneous* | | | | |
| Cement | 66 | 59 | 58 | 59 |
| Lumber | 73 | 77 | 73 | |
| Newsprint paper | 80 | 85 | 88 | 87*p* |
| Machine tools | 119 | 169 | 165 | 206 |

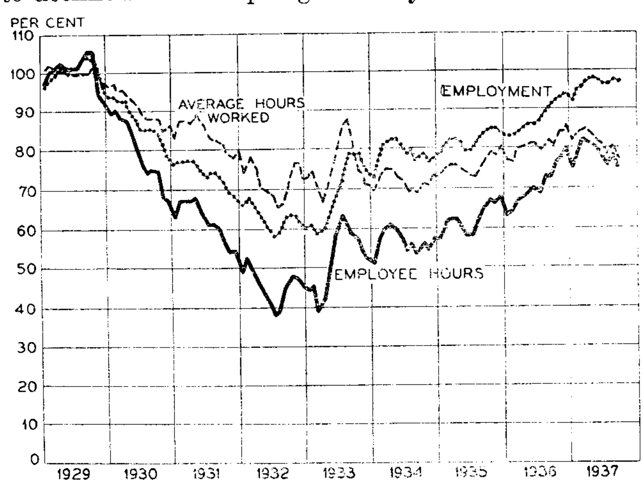
*p* Preliminary *r* Revised

## Employment and Payrolls

The total number of employees engaged in the manufacturing and nonmanufacturing industries reporting to the United States Department of Labor increased by 190,000 from the middle of August to the middle of September, reaching the highest point of the year, but the increase was less than usual for the time of year. The employment gain occurred almost entirely among the nonmanufacturing industries, as a result of substantial seasonal gains in the number of people employed in wholesale and retail trade and in the mining of coal. Weekly payrolls in these industries declined, however, partly because of a reduction in average hours worked and partly because the Labor Day holiday fell this year in the payroll period covered by most of the reports.

Factory employment in the United States was little changed from August to September although an increase is usual at this season, as evidenced by the fact that increases have occurred in 16 of the 18 preceding years for which data are available. Factory payrolls, which have expanded in September in most years, declined this year. The levels of both employment and payrolls continued to be considerably above last year, however, the number of employees being 7 per cent higher and weekly payrolls 20 per cent higher than in September, 1936.

The accompanying diagram shows two measures of employment in manufacturing industries, one an index based upon the actual number of workers employed and the other an index of employee hours worked. These two indexes have been tending to diverge during recent months, owing to a decline in the average number of hours worked which is also shown in the diagram. While employment as measured in terms of actual number of workers employed has continued a generally upward movement thus far in 1937, this rise appears to have been the result of a policy of eliminating overtime and of reductions in regular working hours. In fact, the increase in number of employees has not been sufficient to offset fully the reduction in average hours worked, and the index of employee hours has shown a tendency to decline since the spring of this year.




**Indexes of Number of Persons Employed in United States Factories, Average Number of Hours Worked, and Aggregate Amount of Hours Worked (Based on Bureau of Labor Statistics and National Industrial Conference Board data; 1929 average=100 per cent)**

From the middle of August to the middle of September, employment in New York State factories advanced less than in most other years, and payrolls registered a sizable contraseasonal decrease. Consequently, this bank's seasonally adjusted indexes of New York State factory employment and payrolls declined 3 per cent and 6 per cent, respectively, to approximately the February levels. According to the State Department of Labor indexes, factory employment in September was 10 per cent higher than a year ago and payrolls were 20 per cent larger.

## Building

A further slackening in building activity was indicated by a decrease of 25 per cent from August to September in total awards of building and engineering contracts in the 37 States covered by the F. W. Dodge Corporation reports. Reductions in the dollar volume of contracts occurred in each of the major classifications of construction; public utility work and factory building sustained the most pronounced losses, while residential contracts showed a more moderate decline from August. As compared with a year ago, total contracts in September were 12 per cent lower, the first year to year decline to occur during 1937. Public purpose buildings were the only major group to register an increase over September, 1936. This gain is accounted for by increases in contracts for educational and church buildings, as contracts for other types of public purpose building were slightly lower than a year ago. For the first nine months of 1937, total contracts were 13 per cent larger than in the corresponding period of 1936, and residential building showed an advance of 25 per cent.

Percentage Change in Average Daily Contracts

| | 37 States | | N.Y. and Northern N.J. | |
|---|---|---|---|---|
| | Sept. 1937 compared with Sept. 1936 | Jan.-Sept. 1937 compared with Jan.-Sept. 1936 | Sept. 1937 compared with Sept. 1936 | Jan.-Sept. 1937 compared with Jan.-Sept. 1936 |
| *Building* | | | | |
| Residential | —19 | +25 | —36 | +22 |
| Commercial and factory | — 2 | +56 | —32 | +40 |
| Public purpose* | +24 | — 5 | +53 | +15 |
| All building | — 6 | +23 | —18 | +23 |
| *Engineering* | | | | |
| Public works | —23 | —21 | —19 | — 8 |
| Public utilities | —18 | +49 | —84 | +70 |
| All engineering | —22 | — 6 | —42 | +19 |
| All construction | —12 | +13 | —27 | +22 |

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

In the New York and Northern New Jersey area the September decline in construction contracts was much more marked than in the 37 States, and total contract awards amounted to only about one-half the August volume, all major classifications contributing to the reduction. However, in August all classifications except public utilities had shown considerable advances. Compared with a year ago, total contracts in September were 27 per cent lower, but despite the recent decline the total of all contracts for the first nine months of 1937 exceeded that for the corresponding period of last year by 22 per cent.

Data for the first three weeks of October indicate that construction contracts continued at about the same rate as in September. Compared with the corresponding period in 1936, total contracts were 7 per cent lower; residential building was down 15 per cent, and other classifications showed minor declines.

## Foreign Trade

During September merchandise exports increased over the previous month about in accord with the usual seasonal movement, while imports declined contrary to seasonal tendency. The value of exports at $297,000,000 was 35 per cent above a year ago, and imports of $233,000,000 showed an increase of 8 per cent; exports were larger than in the corresponding month of any year since 1930, and imports larger than in any September since 1929. The September export balance of $63,000,000, together with the excess of exports of the two previous months, reduced the import balance for this year from $147,000,000 at the end of June, to $48,000,000 at the end of September.

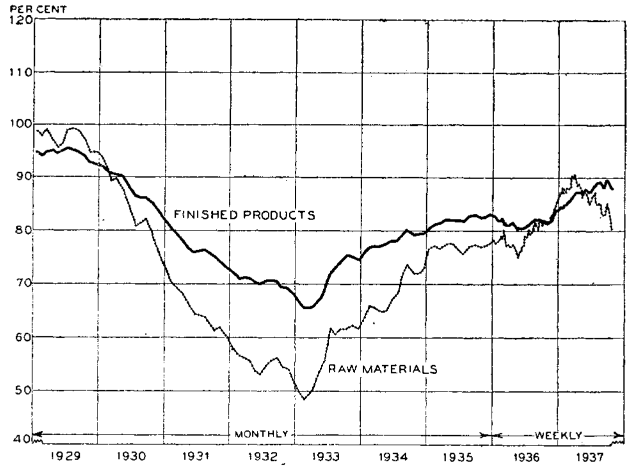
The diverse movement of exports and imports in September is ascribed largely to increased shipments abroad of such agricultural products as raw cotton and tobacco, in contrast to decreases in receipts of foreign agricultural products, chiefly sugar, wool, corn, and vegetable oils. Increases over a year ago in cotton exports to the United Kingdom and other European countries have exceeded declines in such exports to Japan.

## Commodity Prices

A continued downward tendency in the prices of principal actively traded commodities during October was indicated by an almost uninterrupted decline, totaling 13 per cent, in Moody's index of 15 items. The Bureau of Labor Statistics' more comprehensive index of wholesale commodity prices declined 3 per cent through October 23, as a result of recessions of 5 per cent in the raw materials group, of 4 per cent in the semimanufactured group, and of 2 per cent in finished goods.

Movements since 1929 in the price indexes of raw materials and finished products compiled by the Bureau of Labor Statistics, shown in the accompanying diagram, indicate that the fluctuations in raw materials have been characteristically wider than those in finished goods. Raw material prices began a rapid advance in June, 1936, while finished goods prices rose only slightly until November when mounting wage costs were added to further increases in raw material costs. After March of this year raw material prices turned downward while finished goods prices continued to rise, though less markedly. During the past month, as noted above, a moderate recession in finished goods prices has taken place along with the more pronounced reductions in raw material prices.

Among the agricultural commodities, wheat prices declined irregularly in October, the December future contract closing on October 30 at 96⅝ cents a bushel as compared with $1.08½ at the end of September. Owing in part to incoming supplies of the new crop, the




**Wholesale Prices of Raw Materials and Finished Products (Bureau of Labor Statistics indexes; 1926 average=100 per cent)**

cash price for new corn receded to 56½ cents a bushel on October 30, the lowest cash price for corn since June, 1934. At the end of September new corn was quoted at $1.00 a bushel. Livestock prices were reduced sharply in October; the average price of hogs fell $2.80 to $9.17 a hundredweight and the price of steers receded $1.12 to $13.92 a hundredweight. Silk and wool prices also showed some net decline. Rubber prices dropped $1^{15}/_{16}$ cents a pound to $15^{11}/_{16}$ cents. Cotton prices, following a decline on October 8 to 8.05 cents a pound, closed the month at 8.24 cents a pound, only 22 points lower than at the end of September.

Continuing the decline which began at the end of September, metal prices dropped further in October. A decrease of $2.50 a ton in scrap steel at Pittsburgh and of $2.75 at Chicago brought these prices to the lowest levels since July, 1936. The price of lead was reduced ½ cent to 5½ cents a pound, the lowest since last December; the zinc quotation declined ¾ cent to 5.75 cents a pound, a new low since January; copper was quoted at the end of the month at 11¾-12 cents a pound as compared with a range of 12½-13 cents at the end of September; and tin closed the month 7⅝ cents lower at 48 cents a pound.

## Indexes of Business Activity

During the first half of October, department store trade in the Metropolitan area of New York showed nearly as large an increase as usual over September, and continued above a year previous. The movement of freight over the railroads, however, showed a slight reduction from the September level, whereas ordinarily traffic tends to increase at this time of year.

At least the usual seasonal advance appears to have taken place in the level of general business activity and the distribution of goods during September. Increases of the usual magnitude or greater occurred in department store, chain, and mail order house sales, in the volume of check transactions throughout the country, and in freight car loadings. Registrations of new passenger cars are estimated at 230,000 units, a decrease of 70,000 cars from the relatively high August figure, which is larger than the decline last year but smaller than the decline in 1935. Less than the usual seasonal advance was shown in the volume of advertising in September, and about the usual decline occurred in sales of new ordinary life insurance policies.

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

| | 1936 | 1937 | | |
|---|---|---|---|---|
| | Sept. | July | Aug. | Sept. |
| *Primary Distribution* | | | | |
| Car loadings, merchandise and misc. | 73 | 75 | 74 | 74 |
| Car loadings, other | 78 | 88 | 83 | 85 |
| Exports | 68 | 90 | 91 | 86p |
| Imports | 92 | 101 | 95 | 86p |
| *Distribution to Consumer* | | | | |
| Department store sales, U. S. | 91 | 90 | 89 | 89 |
| Department store sales, 2nd Dist. | 87 | 82 | 80 | 83 |
| Chain grocery sales r | 94 | 90 | 91 | 94p |
| Other chain store sales | 96 | 97 | 91 | 96 |
| Mail order house sales | 98 | 94 | 87 | 94 |
| Advertising | 76 | 79 | 82 | 79 |
| New passenger car registrations r | 101 | 96 | 110 | 109p |
| Gasoline consumption | 96 | 103 | 98 | |
| *General Business Activity* | | | | |
| Bank debits, outside New York City | 66 | 64 | 64 | 66p |
| Bank debits, New York City | 41 | 38 | 33 | 37p |
| Velocity of demand deposits, outside New York City | 68 | 69 | 70 | 69 |
| Velocity of demand deposits, New York City | 46 | 48 | 44 | 45 |
| New life insurance sales | 75 | 69 | 71p | 71p |
| Employment, manufacturing, U. S. | 95 | 104 | 104 | 102p |
| Employee hours, manufacturing, U. S. | 84 | 93 | 95 | 88p |
| Residential building contracts | 38 | 35 | 33 | 27p |
| Nonresidential building and engineering contracts | 54 | 72 | 68 | 44p |
| New corporations formed in N. Y. State | 71 | 62 | 63 | 55 |
| General price level* | 156 | 163 | 164 | 160p |
| Cost of living* | 147 | 151 | 152 | 152p |

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

## Wholesale Trade

September sales of reporting wholesale firms averaged 7 per cent higher than last year, a more favorable year to year comparison than in the previous two months. The men's clothing and stationery concerns recorded the largest increases in sales since last May, the grocery and hardware firms showed the most favorable comparisons with sales of a year ago since June, and a substantial gain in sales occurred in drugs and drug sundries. The advance shown in sales of the diamond concerns was larger than in August, and the decline in shoe sales was smaller than in the previous two months. The cotton goods firms, however, reported a smaller increase in sales than last month, and the paper concerns recorded the smallest gain in sales in almost a year. Sales of the jewelry firms were below the figure of a year previous for the first month since January 1936, and yardage sales of rayon and silk goods showed the largest decline since June 1935.

The grocery, drug, hardware, diamond, and jewelry concerns continued to report larger stocks of merchandise on hand this year than last, but the increases were considerably less than those reported in the preceding few months. Collections in practically all reporting lines continued at a lower rate than a year ago.

| Commodity | Percentage change September 1937 compared with September 1936 | | Per cent of accounts outstanding August 31 collected in September | |
|---|---|---|---|---|
| | Net sales | Stock end of month | 1936 | 1937 |
| Groceries | + 2.7 | +10.4 | 90.6 | 93.4 |
| Men's clothing | +13.4 | ...... | 41.8 | 41.8 |
| Cotton goods | + 5.6 | ...... | 44.1 | 45.1 |
| Rayon and silk goods | —32.1* | — 6.4* | 62.8 | 53.0 |
| Shoes | — 2.5 | ...... | 38.7 | 35.7 |
| Drugs and drug sundries | +14.4‡ | +4.77‡ | .... | .... |
| Hardware | + 7.4 | +28.1 | 46.0 | 42.4 |
| Stationery | +16.9 | ...... | 61.4 | 53.4 |
| Paper | + 4.0 | ...... | 54.0 | 46.8 |
| Diamonds | +21.9 | + 7.0 | 22.6 | 20.3 |
| Jewelry | — 3.8 | + 1.1 | | |
| Weighted average | + 7.0 | ...... | 58.6 | 57.2 |

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

## Department Store Trade

During the first half of October, total sales of the reporting department stores in the Metropolitan area of New York were 3 per cent higher than in the corresponding period of last year, and an advance over the September level was indicated, in keeping with the usual seasonal tendency.

September sales of the reporting department stores in this district were 5.8 per cent higher than last year, a slightly larger increase than in August. The Rochester, Syracuse, Bridgeport, Westchester and Stamford, and Central New York State department stores recorded the largest gains in sales over last year. Reporting stores in practically all the other localities also showed some increase in sales. The leading apparel stores in this district reported sales 2.3 per cent higher than last year, following two months in which recessions from a year ago had been indicated.

Department store stocks of merchandise on hand at the end of September remained higher than a year ago, though by a smaller percentage than in any month this year; apparel store stocks continued to show a moderate increase over those of a year previous. Collections were slightly lower this year than last in the department stores, but were somewhat better in the apparel stores.

| Locality | Percentage change September 1937 compared with September 1936 | | Per cent of accounts outstanding August 31 collected in September | |
|---|---|---|---|---|
| | Net sales | Stock on hand end of month | 1936 | 1937 |
| New York | + 6.0 | +14.2 | 46.2 | 46.0 |
| Buffalo | + 4.4 | +13.4 | 47.1 | 43.2 |
| Rochester | + 9.5 | +10.4 | 43.4 | 45.3 |
| Syracuse | +11.0 | +19.4 | 37.4 | 37.9 |
| Northern New Jersey | + 3.3 | +11.1 | 39.6 | 39.8 |
| Bridgeport | + 9.6 | + 5.4 | 39.4 | 37.4 |
| Elsewhere | + 5.5 | + 3.1 | 32.3 | 33.2 |
| Northern New York State | — 1.8 | ...... | .... | .... |
| Southern New York State | + 3.6 | ...... | .... | .... |
| Central New York State | + 9.4 | ...... | .... | .... |
| Hudson River Valley District | + 4.3 | ...... | .... | .... |
| Capital District | + 5.3 | ...... | .... | .... |
| Westchester & Stamford | + 8.5 | ...... | .... | .... |
| Niagara Falls | + 6.4 | ...... | .... | .... |
| All department stores | + 5.8 | +13.2 | 43.2 | 43.0 |
| Apparel stores | + 2.3 | + 6.5 | 39.2 | 39.8 |

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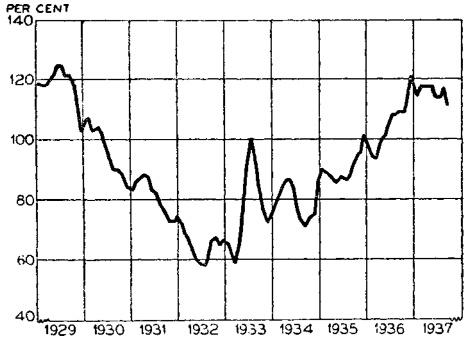
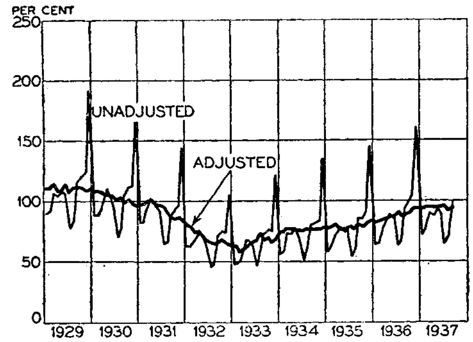
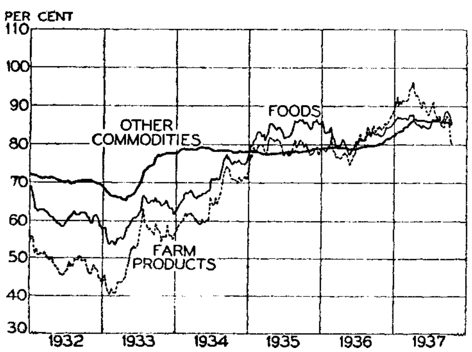


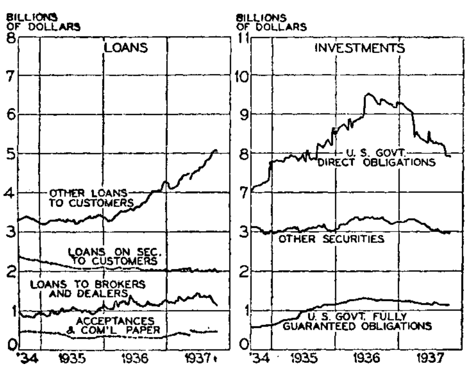

**Index Number of Production of Manufactures and Minerals Combined, Adjusted for Seasonal Variation (1923-25 average=100 per cent)**




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




**Group Price Indexes of Bureau of Labor Statistics (1926 average=100 per cent)**




**Wednesday Figures for Reporting Member Banks (Latest figures are for October 20)**

# Business Conditions in the United States

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

DECLINES in industrial production in September and the first part of October reduced output to the level of a year ago, and commodity prices continued to decline. The volume of distribution to consumers was maintained at the level of previous months.

## Production and Employment

Volume of industrial production, as measured by the Board's seasonally adjusted index, declined in September to 111 per cent of the 1923-1925 average as compared with 114 in June and July and 117 in August. At steel mills, where output in August had been at a high level, partly on the basis of orders placed earlier in the year, activity was reduced to an average rate of 75 per cent of capacity in September. This decline continued in October, as new orders were in limited volume, and the rate of steel output in the fourth week of the month is estimated at about 52 per cent of capacity. There were also declines in September in activity at woolen mills, shoe factories, and at sugar refineries, and activity at cotton mills showed little change, although an increase is usual at this season. Increases in output were reported at silk mills and meat packing establishments where activity recently has been at a low level. Automobile production showed a decline from the high level of August, but in the first three weeks of October advanced sharply as most manufacturers began assembling 1938 models.

Mineral output increased in September, reflecting an expansion in coal production. Output of crude petroleum declined somewhat but continued in large volume.

Value of construction contracts awarded, as reported by the F. W. Dodge Corporation, was smaller in September and the first half of October than in the preceding six weeks, with a moderate decline in private residential building and sharp declines in awards for other private work and for publicly financed work. Currently the dollar volume of private work is about the same as a year ago, while awards for public work are in smaller volume.

Factory employment showed little change from August to September, although an increase is usual at this season. There were declines in the number employed at textile mills, shoe factories, railroad repair shops, and lumber mills. At canning establishments employment increased seasonally. Factory payrolls, which usually expand in September, declined substantially, reflecting principally a reduction in the average number of hours worked by those employed. The levels of employment and payrolls continued to be considerably above last year.

## Distribution

Distribution of commodities to consumers by department stores and mail order houses increased more than seasonally in September, and variety store sales showed about the usual seasonal expansion. Freight car loadings increased by the usual seasonal amount from August to September.

## Commodity Prices

The general level of wholesale commodity prices, according to the Bureau of Labor Statistics' index, declined from 87.5 per cent of the 1926 average in the latter part of September to 85.2 in the middle of October. During that period price declines occurred in most commodities traded in on organized exchanges and in some manufactured products. In the ten days ended October 25 commodity markets were steadier. New models of automobiles are currently being introduced at higher prices.

## Bank Credit

Excess reserves of member banks, after increasing in September from $750,000,000 to over $1,000,000,000, showed little further change in October.

Total loans and investments of reporting member banks in 101 leading cities declined somewhat in the four weeks ended October 20, reflecting chiefly a steady reduction throughout the period in loans to security brokers and dealers. Commercial loans increased further.

## Money Rates and Security Prices

Rates on 9 month Treasury bills in October declined to about 3/8 of one per cent, the lowest since last January. Prices of high grade bonds showed little change in September and October, while prices of lower grade bonds and of common stocks declined sharply to the lowest levels since the middle of 1935.