MONTHLY REVIEW

of Credit and Business Conditions

Second Federal Reserve District

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

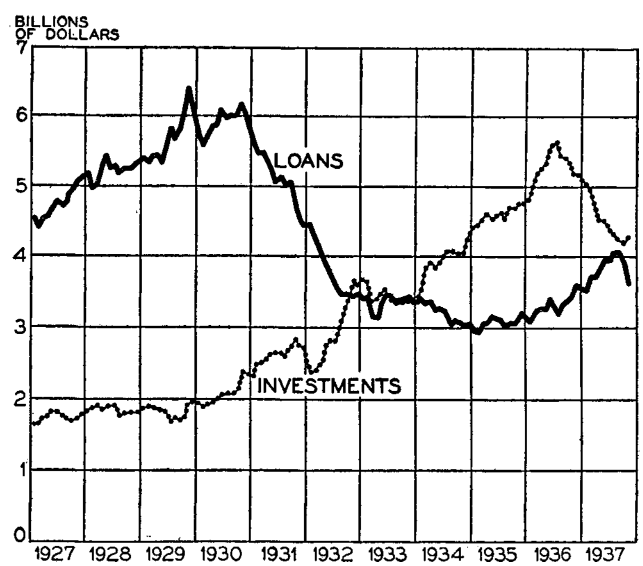
Money Market in November

Giving further effect to the credit policy announced following the meeting of the Federal Open Market Committee on September 12 (which was reported in the October 1 issue of this Review), the Federal Reserve Banks purchased approximately $38,000,000 of Government securities in the three weeks ended November 24. These purchases were made in anticipation of the large seasonal increase in the amount of currency in circulation between the latter part of November and Christmas, in connection with the holiday trade, and had the effect of increasing temporarily the amount of excess reserves held by member banks.

An ample volume of reserves, during the autumn, had already been largely assured the banks by the action of the Treasury in disbursing the proceeds of $300,000,000 released from the inactive gold account, which was also indicated in the announcement of the Federal Open Market Committee in September. This was especially so in view of the fact that the demand for currency, since the early part of September, has been less than had been anticipated earlier, and that member bank reserve requirements have declined in recent months accompanying some reduction in member bank deposits caused chiefly by liquidation of brokers loans. During much of the past month, total excess reserves for all member banks throughout the country held around $1,050,000,000 and increased on November 24 to $1,140,000,000. For the principal New York City banks, excess reserves during most of the month were between $325,000,000 and $400,000,000, and near the end of November were somewhat above the latter figure. In the next three weeks the seasonal increase in currency circulation will temporarily reduce excess reserves, but it now appears that, unless other factors intervene, the total volume of excess reserves for all member banks is not likely to fall below $900,000,000 at the peak of the currency demand just before Christmas, and that the seasonal return flow of currency after Christmas will increase excess reserves to at least $1,250,000,000 by the end of January.

The maintenance of large amounts of excess reserves at the member banks has had the effect of maintaining easy conditions in the money market, but in spite of the effort of the banks to employ idle funds, there has been some further shrinkage in the volume of loans and investments and an accompanying shrinkage in the volume of deposits during the past month. Efforts of the large New York City banks to employ idle funds have been reflected in an increase of $177,000,000 in Government security holdings between October 20 and November 24, but the effect of these security purchases on the total loans and investments of the New York City banks was more than offset, first by further liquidation of brokers loans, and more recently by a seasonal decline in commercial loans, together with some reduction in holdings of investments other than Government securities. The reduction in loans to security brokers and dealers was much more gradual after the first week in November than it had been during September and October, but on November 17 the volume of such loans in the New York City banks reached the lowest level since April, 1935. Commercial loans of the reporting New York City banks on November 24 were $53,000,000 less than on October 27, and were $115,000,000 below the peak on October 13, but remained about $370,000,000 above the low point of the year, which was reached last February.

In other principal cities, also, the weekly reporting member banks have shown some further reduction in their total loans and investments during the past month. Government security holdings declined $107,000,000 between October 20 and November 24 and there were small reductions in commercial loans and in loans to security brokers and dealers.



Loans and Investments of Weekly Reporting Member Banks in New York City

The reduction in Government security holdings in these banks coincident with the increase in Government securities held by the principal New York City banks, draws attention to the fact that additions to the available supply of such securities, in recent months, have been greatly reduced. Between June 30 and October 31, the total interest bearing debt of the Government increased by $563,000,000, but the amount of new Government securities available for purchase by banks and other investors during this period was only $164,000,000, as the bulk of the increase in the Government debt was in the form of special securities issued for the employment of funds in the custody of the Treasury, including the Old Age Reserve Account, the Unemployment Trust Fund, and the Civil Service Retirement Fund. In the fiscal year ended June 30, 1937, the increase in direct obligations of the Government outstanding, exclusive of special issues such as those mentioned above, was over $2,100,000,000, and in the preceding fiscal year the increase was in excess of $5,100,000,000. In each of the past two fiscal years, investors and investing institutions other than banks purchased approximately $2,000,000,000 of Government securities. Since the early part of September there has been no increase in the volume of Government securities outstanding and available for general investment, except for some increase in United States Savings bonds. Under these circumstances, when banks such as the New York City banks, undertake to increase Government security holdings, their purchases must result in a reduction in the holdings of other banks or other investors.

Money Rates

Yields on the various classes of Government securities during the past month have reflected the competition of the various investors and investing institutions for the available supply. Yields on Treasury bills declined to the lowest levels in nearly a year, and yields on Treasury notes and on Government bonds also declined. Yields on high grade corporation bonds reflected a firm market for such securities, despite the unsettled conditions prevailing in the market for stocks and lower grade bonds.

Money Rates in New York

	Nov. 30, 1936	Oct. 30, 1937	Nov. 30, 1937
Stock Exchange call loans	1	1	1
Stock Exchange 90 day loans	*1¼	*1¼	*1¼
Prime commercial paper 4 to 6 months	¾	1	1
Bills—90 day unindorsed	3/16	7/16	7/16
Customers' rates on commercial loans (Average rate of leading banks at middle of month)	1.71	1.67	1.63
Average yield on Treasury notes (3-5 years)	†0.93	†1.37	†1.30
Average yield on Treasury bonds (more than 8 years to maturity or call date)	‡2.23	‡2.63	‡2.57
Average rate on latest Treasury bill sale 140 day issue	....	0.26	....
107 day issue	....	....	0.12
104 day issue	0.04	....	....
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.

Government Securities

Prices of Treasury securities followed a generally rising course during the first 19 days of November, accompanying a somewhat increased demand for Government obligations on the part of banks. During this period the average price of Treasury bonds rose over ¾ of a point to about the same level as was reached in the first part of August. At this level Treasury bond prices averaged approximately 2⅜ points above the April, 1937 lows and some 4⅜ points below the December, 1936 highs. In the latter part of November, movements of Treasury bond prices were irregular and a net decline of about ⅛ point occurred. Changes in prices of Treasury notes were similar in direction to those in Treasury bonds. Accordingly the average yield on notes of 3 to 5 year maturity declined from 1.37 per cent at the end of October to 1.27 per cent on November 19 and then rose to 1.30 per cent.

Rates on Treasury financing by means of short term bill issues declined further during November. On November 3, $50,000,000 of 133 day bills maturing March 16, 1938 were issued at an average rate of 0.226 per cent and in the succeeding weeks the average rate dropped to 0.119 per cent for the 107 day maturity to be issued December 1. The November bill issues aggregating $200,000,000, all of which mature at the March tax period, replaced maturities of 273 day bills.

Bills and Commercial Paper

The discount market continued in November to handle only a small volume of bankers bills, and the rate structure remained at levels previously current. The amount of bills outstanding at the end of October, $346,000,000, was slightly above the September total, and continued to exceed by a small amount the volume of a year ago. Approximately 82 per cent of all bills outstanding at the end of October were held by accepting banks and bankers, which compares with 80 per cent a month ago, and is the largest percentage since February.

(Millions of dollars)

Type of acceptance	Oct. 31, 1936	Sept. 30, 1937	Oct. 30, 1937
Import	110	127	127
Export	67	77	82
Domestic shipment	10	11	8
Domestic warehouse credit	65	62	66
Dollar exchange	1	1	1
Based on goods stored in or shipped between foreign countries	77	66	62
Total	330	344	346

There was a smaller volume of commercial paper available to dealers for resale during November, due in part at least to seasonal influences. On the other hand, bank investment demand for business notes continued active and readily absorbed the new paper currently offered. The prevailing rate for average grade prime 4 to 6 month commercial paper remained at 1 per cent. A total of $323,400,000 of paper was reported by commercial paper houses as outstanding at the end of October, as against $331,400,000 a month ago, and $198,800,000 a year ago.

New Financing

Financing by means of security issues continued in small volume during November. Including temporary borrowing and private placements of securities, the total was only about $150,000,000, as compared with $200,000,000 in October and $350,000,000 in November, 1936.

Virtually all of the corporate financing was arranged through private sales of securities to insurance companies. The total of such placements announced during the month was $43,300,000 and consisted of $21,000,000 for Phillips Petroleum Company, $15,000,000 for Colombian Petroleum Company, $5,000,000 for Potomac Electric Power Company, and $2,300,000 for General American Transportation Corporation. In addition there were about $2,000,000 of small offerings of stock, mostly to the present stockholders of the offering corporations. This monthly total of $45,000,000 of corporate flotations represents a sharp reduction from the October corporate total of $125,000,000 and is the smallest amount for any month since February, 1935.

The largest issues in November were $32,200,000 of Federal Intermediate Credit Bank short term debentures for refunding purposes, and $25,000,000 Federal Home Loan Bank 2 per cent three year debentures, priced to yield 1.87 per cent. This Home Loan Bank issue, which was of longer maturity than any offered previously, was floated to increase the amount of funds available for future operations. Both issues were heavily oversubscribed. The other financing of the month was composed of awards of about $33,000,000 of State and municipal bonds and $15,000,000 of temporary municipal loans.

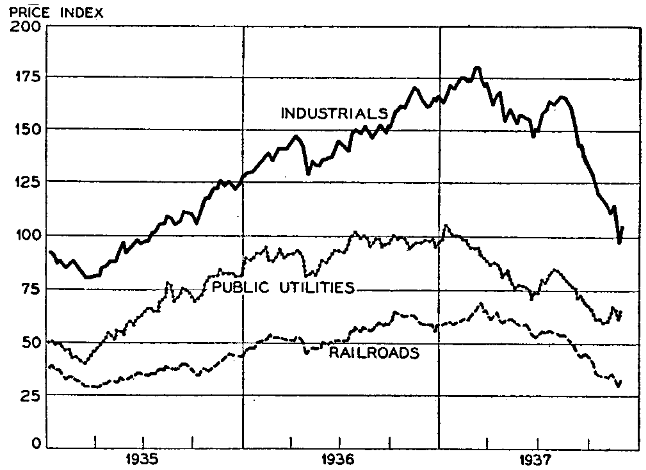
Security Markets

The 15 per cent rise in the general average of stock prices between October 18 and the end of October proved to be the maximum extent of recovery to be registered to date. Except for a sizable advance on November 10, industrial and railroad shares generally moved downward until the last few days of November, and on the 19th broke through the October lows; by the 24th industrial stocks as a group were 8 per cent below the lowest closing quotations of October and railroad stocks averaged 6 per cent lower. The recovery in public utility shares, however, continued through the first part of November, apparently in reflection of news reports construed as favorable to the future outlook for the industry, and on November 13 the average of public utility stock prices was 21 per cent above the October low. Subsequently this group of stocks also declined, but remained about 9 per cent above the October lows. After the Thanksgiving Day holiday, the general level of stock prices showed a moderate net advance.

As a result of the further decline in November in the general average of share prices, approximately 80 per cent of the March, 1935 to March, 1937 advance was canceled, and at the lowest levels in November average prices were the lowest since June, 1935. The average decline from the March, 1937 high to the November low amounted to 46 per cent, according to the Standard Statistics combined index for the three major stock groups.

The activity of the stock market in November was distinctly less than in October; on no day did turnover on the New York Stock Exchange exceed two million shares, and the average for the month as a whole was about 1½ million shares.

Prices of medium and lower grade bonds continued during November to follow the same general pattern as



Movements of Stock Prices (Standard Statistics Company data; 1926 average = 100 per cent)

stock prices, and reached new lows since 1935. For example, the average price of a group of bonds rated Baa by Moody's Investors Service, which had recovered about 4 points in the latter part of October, began a decline early in November which by the 24th amounted to about 5½ points, carrying this average to a lower point than at any time since April, 1935. Railroad bonds of this grade continued to be weaker than similarly rated industrial or public utility bonds, but because of the greater advances in railroad bonds during 1935 and 1936 the current level of the railroad bonds is much the same, relative to 1935, as for other bonds.

High grade corporation bonds, in contrast to the weakness in lower grade bonds and in stock prices, held steady to firm during November. Although not quite as high toward the end of November as at the end of October, prices of high grade corporate issues averaged 1 point above the October low and 4¼ points above the year's low which was reached in April.

Gold Movements

In November, for the first month since February, 1936, the gold stock of the United States showed a reduction, which amounted to approximately $30,000,000. This decline in the gold stock was accompanied by a similar reduction in the inactive gold account of the Treasury, which amounted to $1,242,500,000 on November 29, according to the daily statement of the Treasury, and occurred at the time of exports of $25,000,000 of gold to France and $5,000,000 to England.

With the London market price for gold holding above the level at which gold shipments to New York would have been profitable, and at one time rising above the gold export point from New York, gold imports into the United States during November were limited to $35,700,000 from Japan, $2,500,000 from Colombia, $2,300,000 from Australia, and $400,000 from India; most of this gold was received on the Pacific Coast. In addition, $1,300,000 of gold was released from earmarked foreign account. These movements were not reflected in increases in the gold stock figures, as they were offset by other transactions.

Foreign Exchanges

The weakness of the dollar in the foreign exchange market, of which there were indications at the end of October, continued during the first part of November, and was reflected in substantial advances in rates for the major European currencies. Sterling, which had closed at \$4.96 on October 30, reached \$5.03 during the course of trading on Monday, November 8, and the French franc, over the same period, rose from \$0.0337⅛ to \$0.0342, the Swiss franc from \$0.2312½ to \$0.2329¾, the guilder from \$0.5529½ to \$0.5568, and the belga from \$0.1691 to \$0.1709¼.

At the highest price for sterling on November 8, the dollar equivalent of the London market price for gold reached \$35.24, as compared with a figure of \$34.86 at the end of October, and represented a price sufficiently high to make profitable the export of gold from New York. The wave of selling of dollars, which had had its origin in rumors widely circulated in Europe to the effect that the United States might raise its price of gold, came to a halt when announcement was made on the same day by the Secretary of the Treasury of a gold shipment to France amounting to \$10,000,000. The pound sterling closed the day at \$5.02⅜ and the following day at \$4.99⅞, and other major European currencies moved similarly.

Throughout the remainder of the month, the dollar held fairly steady against foreign currencies, as a continued though diminished outflow of capital was balanced by the heavy merchandise export surplus. Sterling fluctuated close to \$5.00 in a narrow market, and the dollar equivalent of the London gold price was around \$35.00. Only the guilder showed a divergent tendency, advancing to \$0.5560 at the end of the month.

The French franc benefited from the weakness in the dollar during October and November; the Stabilization Fund was reported to have been a heavy purchaser of gold and foreign exchange, and, in the week ended November 10, sold gold amounting to 3,127,000,000 francs to the Bank of France. The quotations for forward francs improved, the discount on three month contracts declining to the equivalent of 6⅛ per cent per annum at the end of the month, as compared with 12 15/16 per cent on October 30, and 25⅜ per cent on September 30. Strength in the forward franc became especially marked in the last week of November when the French Treasury's intention of repaying at maturity in December the £40,000,000 London credit in full became known.

Further weakness in most of the South American exchanges, resulting from continued increases in imports for consumption and the recent sharp fall in world prices of export commodities, became evident in November. The Argentine free peso which had fallen below \$0.30 in September for the first time since February, eased further during November to \$0.2940 at the end of the month from \$0.2975 in October. New measures calculated to tighten official control of foreign exchange were put into effect in Colombia, while restrictions affecting automotive imports were imposed by Uruguay in an effort to conserve supplies of foreign exchange. In the exchange markets, official quotations for the Colombian peso have fallen from \$0.56⅞ in October to \$0.54¼, while the free peso has fallen further to \$0.50½. Similarly, the Uruguayan free peso dropped sharply at the end of November to \$0.51¾ from \$0.58 in October and \$0.60 the previous month. In Brazil, suspension of service on its funded foreign debt was announced on November 10. The official milreis was abandoned, and the open market milreis advanced from \$0.0558 at the end of October to \$0.0599 on November 16, but subsequently weakened to \$0.0550 at the month end.

No change occurred in Far Eastern exchange quotations. The Japanese yen was supported by continued shipments of gold to the United States for conversion into dollars.

Central Bank Rate Changes

Effective November 13 the Bank of France lowered its discount rate from 3½ to 3 per cent. The rate for 30 day advances on Government securities, which has been the same as the discount rate since May, 1935, was also reduced from 3½ to 3 per cent, and the rate for 3 month advances on eligible collateral was lowered from 4½ to 4 per cent.

Foreign Trade

October merchandise exports from this country valued at \$333,000,000 showed an increase over the previous month, while imports amounting to \$224,000,000 were smaller than in September. The gain in exports over September was somewhat smaller than the usual seasonal rise and the decrease in imports was contrary to the customary movement in October. An increase of 26 per cent over a year ago in exports, as compared with a 6 per cent increase in imports, converted the import balance for the first 9 months of this year into an export balance of \$60,000,000 for the 10 months ended with October.

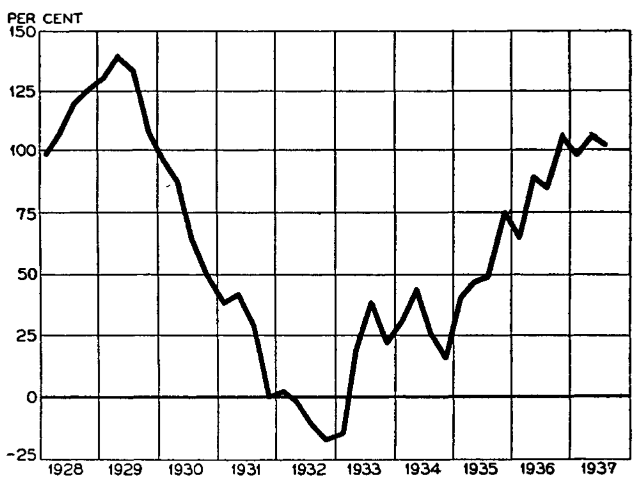
Large increases over a year ago occurred during October in shipments of metals, manufactured products, machinery, automobiles, and petroleum products. On the other hand, the volume of exports of raw cotton from the United States, while seasonally larger than in the previous month, was smaller than a year ago, due to a heavy reduction in Japan's takings of American cotton. The increase in the value of imports compared with October, 1936 was chiefly the result of larger receipts of crude rubber, paper and paper materials, and nonferrous metals, at higher prices this year. Imports of agricultural products were substantially reduced from a year ago.

Business Profits

As most of the current recession in business has occurred since September, total corporation profits for the third quarter of this year remained above those of a year previous, but the increase was less than in the early months of the year, reflecting a smaller increase over a year ago in the volume of business and also a narrowing of profit margins by reason of increased operating costs. Net profits of 231 industrial and mercantile companies in the July to September quarter of this year were 19½ per cent larger than in the corresponding period of last year, whereas profits in the first quarter were approximately 50 per cent above a year previous. Approximately three-fifths of the 231 companies either increased profits, converted deficits into profits, or reduced deficits between the third quarters of 1936 and 1937; the other two-fifths of the companies showed smaller earnings than in the third quarter of last year. These figures and the data shown in the accompanying diagram indicate that the upward trend of profits of the past four years was checked before the rapid decline in business during the past three months got well under way.

The outstanding increase in industrial profits in the third quarter was in the steel industry, United States Steel Corporation alone showing an increase of 125 per cent and 14 companies, including United States Steel, a rise of 83 per cent over the third quarter of 1936. Excluding the large increase in the steel industry, the increase for other reporting companies amounted to 12 per cent. Among these other companies, the principal increases were in the electrical equipment, machinery and tool, metals and mining (excluding coal and coke), and railroad equipment groups. The important automobile group had an increase in combined profits of only 12 per cent, although automobile production increased 23 per cent and industrial profits generally tend to rise more rapidly than the volume of business in periods of expansion. There were declines in profits in the clothing and textile, food and food products, household supply, printing and publishing, cigar, and miscellaneous groups, and a deficit for 1937 supplanted the small net profits of the coal companies in 1936.

Aggregate net profits, less deficits, of the 231 companies for the first nine months of 1937 were 26 per cent larger than a year ago, and were 24 per cent less than in the corresponding period in 1929. Large increases over a year ago in 9 month profits of the steel, railroad equipment, paper and paper products, building supply, and machinery and tool groups, and moderate increases in several other lines were offset to a considerable extent by declines in profits in the automobile industry and in most of the groups which showed reduced profits for the third quarter.



Index of Profits of 168 Industrial and Mercantile Corporations, Adjusted for Seasonal Variation (1925-29 average=100 per cent)

Owing to a rise in operating expenses, net operating income of Class I railroads in the third quarter of 1937 was 13 per cent less than a year ago, and net income was 38 per cent less, although gross revenues were about 3 per cent larger. For the first nine months of the year, however, the net income of the railroads showed a substantial increase, reflecting the increases which resulted from operations earlier in the year. Net operating income of telephone companies in the third quarter fell 8 per cent below last year, but for the nine months was slightly ahead. Net income of other public utilities for the third quarter was 5 per cent above a year ago, and for the nine months 8 per cent ahead.

(Net profits in millions of dollars)

Corporation group	Third Quarter 1929	1932	1936	1937	First nine months 1929	1932	1936	1937
Automobiles..........	86.9	—17.9	48.5	54.4	296.0	— 14.6	225.9	198.1
Automobile parts and accessories (excl. tires)	22.0	— 4.6	11.3	12.3	78.5	— 8.2	45.2	52.3
Building supplies......	8.9	— 1.4	4.2	5.3	18.7	— 5.6	8.7	15.5
Chemicals and drugs...	43.0	11.7	43.3	44.9	124.4	40.5	117.1	131.4
Clothing and textiles...	2.0	0.1	1.3	0	3.2	— 1.9	2.2	0.6
Coal and coke........	1.0	— 0.6	0	—0.3	2.5	— 1.6	0.8	— 0.2
Electrical equipment...	35.7	— 1.9	15.1	21.7	90.3	1.7	43.6	66.7
Food and food products.	51.3	24.1	38.4	31.1	137.2	81.7	99.2	92.3
Household supplies....	5.4	1.7	4.2	3.3	14.2	1.6	6.8	6.5
Machinery and tools...	8.4	— 2.7	7.1	10.4	25.1	— 9.2	19.2	31.6
Metals and mining (excl. coal and coke)......	16.2	0.2	16.0	22.7	46.6	2.4	44.7	68.8
Office equipment......	6.9	— 0.3	3.7	5.1	21.8	1.0	12.5	18.6
Paper and paper products...........	1.6	— 0.2	0.9	1.2	4.1	— 0.4	2.4	4.5
Petroleum............	52.5	8.0	29.8	41.6	115.8	17.0	67.7	99.5
Printing and publishing.	6.6	— 0.2	1.8	0.9	21.8	4.9	6.9	5.6
Railroad equipment....	12.3	0.7	5.8	8.7	30.6	— 0.5	11.8	25.4
Steel................	83.9	—34.4	28.9	52.8	240.8	— 93.4	61.9	163.5
Tobacco (cigars)......	3.6	0.8	1.3	1.2	9.3	2.1	2.7	2.5
Miscellaneous.........	21.8	— 2.7	14.9	13.2	62.7	— 1.2	34.8	39.6
Total, 231 companies	470.0	—19.6	276.5	330.5	1,343.6	16.3	814.1	1,022.8
141 Class I Railroads								
Net operating income	393.3	88.2	196.5	170.2	944.7	197.8	434.5	468.4
Net income.........	*	—39.0	66.9	41.6	*	—164.3	43.7	78.7
81 Telephone companies Net operating income	*	*	56.4	52.1	*	*	169.8	170.2
55 Other public utilities. Net income.........	57.2	41.6	46.5	48.9	187.6	152.9	148.9	160.9

— Deficit * Not available

Employment and Payrolls

The total number of workers employed in the manufacturing and nonmanufacturing industries that report to the United States Department of Labor decreased by 80,000 in the month ended October 15, as a decline of approximately 145,000 in the number of factory workers was only partially offset by seasonal advances in employment in trade and in coal mining. Compared with a year ago, however, the number employed remained 600,000 larger and weekly payrolls were $43,000,000 higher.

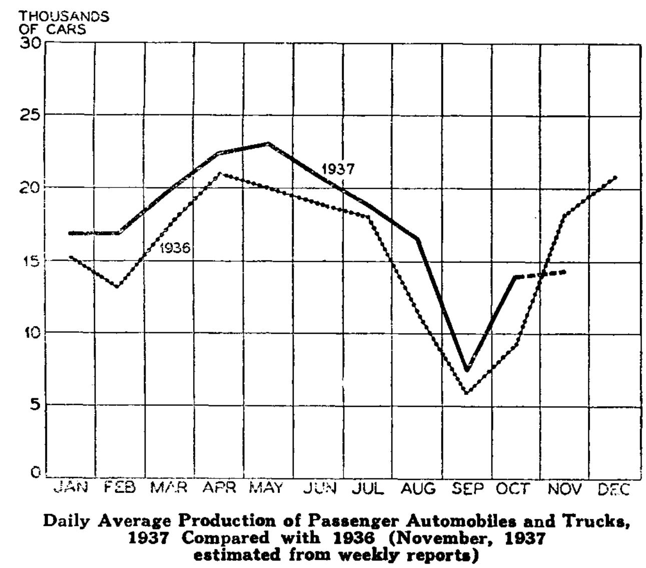
The index of factory employment of the United States Department of Labor declined in October, contrary to the usual movement, and after seasonal adjustment factory employment showed the sharpest reduction since September, 1934 when widespread textile strikes occurred, but the number of factory employees remained 4 per cent higher than in October, 1936. The reduction in number of employees was limited in some industries by curtailment of working hours. Employment declined in a wide variety of industries, including iron and steel, textiles, shoes, and canning. In automobile plants, on the other hand, the number of men employed was substantially enlarged as volume production of new models began.

According to the indexes of the State Department of Labor, both employment and payrolls in New York State factories declined 2 per cent from the middle of September to the middle of October, and on a seasonally adjusted basis reached the lowest levels of the current year. Factory employment in October remained 6 per cent greater than a year ago, however, and payrolls were 12 per cent higher.

A further decline in factory employment to the middle of November was indicated by a special telegraphic survey by the National Industrial Conference Board covering more than 1,200 firms in 27 manufacturing industries. This report revealed a decline of 4.3 per cent in employment at these concerns from the middle of October to the middle of November, as well as further reductions in hours of work.

Production and Trade

The recession in business which was evident in September and October, continued during November. Steel output, as a result of a low level of new orders and closer adjustment of output to incoming business, fell further and at the close of the month operations, estimated at about 30 per cent of capacity, were only about one-third the rate prevailing at the spring peak. In the automobile industry, the deferring of volume output by a major producer, a recurrence of labor difficulties in some plants, and a rather general adoption of production schedules below those planned early in the season, contributed to restrict expansion of automobile assemblies in November, and weekly estimates indicated that production in November dropped below the corresponding month of 1936 for the first time this year, as the accompanying diagram shows. It was reported that cotton mill activity declined further in November, and the generation of electric power showed a considerable decrease. On the other hand, the November decline in the movement of freight over the railways appears to have been largely of a seasonal character, and department store trade in the Metropolitan area of New York showed nearly the usual increase during the first half of November.



Daily Average Production of Passenger Automobiles and Trucks, 1937 Compared with 1936 (November, 1937 estimated from weekly reports)

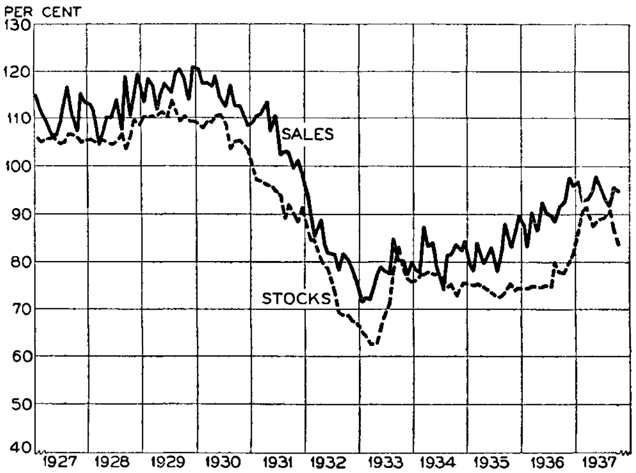
Final data for October indicated further contraction in the volume of industrial production and in railway freight shipments, but no pronounced movement other than seasonal was shown in available retail trade statistics. Daily average output of steel ingots declined 24 per cent from the September average, and the rate of consumption of cotton by textile mills was 9 per cent lower. The dollar volume of machine tool orders fell to the lowest point of the year, and shoe production also was reduced. There was an increase in automobile production of larger proportions than in 1936 but smaller than in 1935. Sugar meltings advanced following the sharp decline in September, and output of lead was seasonally higher. In the meat packing industry, slightly more than the usual seasonal increase appears to have occurred. The index of industrial production compiled by the Board of Governors of the Federal Reserve System for October was at 103 per cent of the 1923-25 average, as compared with 111 for September and 117 for August, and 110 for October, 1936.

October sales of department stores, mail order houses, and chain stores showed close to the usual seasonal ad-

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

	1936	1937		
	Oct.	Aug.	Sept.	Oct.
Industrial Production				
Steel	107	115	103	79
Copper	95	125	110	108
Passenger cars *r*	84	140	145	135
Motor trucks *r*	68	129	124	62
Bituminous coal	88	86	92	85*p*
Crude petroleum	88	100	98	98*p*
Electric power	94	99	96	94*p*
Cotton consumption	104	108	102	88
Wool consumption	101*r*	106	84	56*p*
Shoes	114*r*	105	90*p*	87*p*
Meat packing	101	77	82	86
Tobacco products	93	93	93	95
Cement	71	58	59	
Machine tool orders*	127	165	206	143
Employment				
Employment, manufacturing, U. S.	96	104	102	100*p*
Employee hours, manufacturing, U. S.	90	95	88	87*p*
Construction				
Residential building contracts	34	33	27	26
Nonresidential building and engineering contracts	53	68	44	47
Primary Distribution				
Car loadings, merchandise and misc.	74	74	74	71
Car loadings, other	80	83	85	80
Exports	70	91	86	83*p*
Imports	86	95	88	82*p*
Distribution to Consumer				
Department store sales, U. S.	93	89	89	88*p*
Department store sales, 2nd District	87	80	82*r*	82
Chain grocery sales	96	91	94*p*	94*p*
Other chain store sales	96	91	95*r*	94
Mail order house sales	101	86*r*	93*r*	93
New passenger car registrations *r*	100	110	107	117*p*
Money Payments				
Bank debits, outside New York City	67	64	66	66*p*
Bank debits, New York City	41	33	37	41*p*
Velocity of demand deposits, outside New York City	68	70	69	70
Velocity of demand deposits, New York City	46	44	45	47
General price level †	156	164	161	159*p*
Cost of living †	147	152	153	153*p*
Composite index of wages †*r*	219	241	241	242*p*

p Preliminary. *r* Revised. * Not adjusted for price changes.
† 1913 average = 100; not adjusted for trend.



Sales and Stocks of Reporting Department Stores in Second Federal Reserve District, Adjusted for Seasonal Variation (1923-25 average = 100 per cent)

vances over September. Registrations of new passenger cars were estimated at 197,000 units, a decrease of 28,000 cars from the September figure, which is less than the decline that occurred last year. The volume of check transactions outside New York City was little changed from the previous month, while in New York City some advance was indicated.

Recent developments in retail trade in the Second Federal Reserve District are indicated in the accompanying diagram which shows indexes of sales and stocks of department stores, both series adjusted for usual seasonal variation. It appears from this diagram that stocks of merchandise in the stores, adjusted for seasonal changes, were reduced substantially during September and October from the rather high level of several preceding months which resulted from the rapid rise in stocks between August, 1936 and February, 1937, when there were substantial increases in prices. Sales, however, have held close to the average level that has prevailed since the autumn of 1936.

Building

Total building and engineering contracts awarded in the New York and Northern New Jersey area increased 34 per cent during October, following a sharp decline in September. Heavy engineering projects registered an advance of 90 per cent for the month, owing principally to contracts for a single large bridge, and the value of residential contracts was 35 per cent higher than in September. Total contracts in October were nearly the same as a year earlier, although residential contracts were 29 per cent lower, and for the first ten months of the year contracts for all major types of construction were higher than in the similar period of 1936, as is indicated in the following table.

For the 37 States covered by the F. W. Dodge Corporation reports, October construction contracts were practically unchanged from the September level, and totaled approximately 7 per cent less than in October, 1936. Total contract awards in the first ten months of 1937 remained 11 per cent above those in the corresponding period of 1936.

Percentage Change in Average Daily Contracts

	N.Y. and Northern N.J.		37 States	
	Oct. 1937 compared with Oct. 1936	Jan.-Oct. 1937 compared with Jan.-Oct. 1936	Oct. 1937 compared with Oct. 1936	Jan.-Oct. 1937 compared with Jan.-Oct. 1936
Building				
Residential	− 29	+15	−15	+20
Commercial and factory	+ 1	+35	− 2	+49
Public purpose*	− 24	+11	0	− 5
All building	− 23	+18	− 8	+20
Engineering				
Public works	+234	+ 4	−10	−20
Public utilities	− 73	+52	+14	+45
All engineering	+ 60	+22	− 5	− 6
All construction	− 3	+19	− 7	+11

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

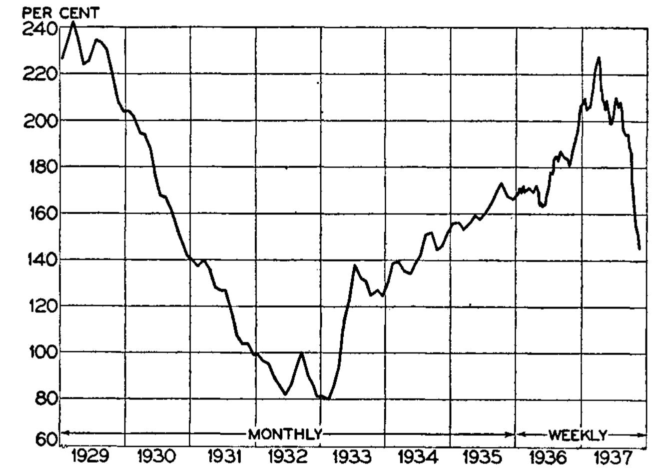
Data for the first three weeks of November indicate an increase of 5 per cent over the October rate of construction contracts in 37 States. Residential and nonresidential building contracts advanced contraseasonally and heavy engineering projects declined less than usual for the time of year. Compared with the corresponding period in 1936, total contracts were approximately unchanged, reductions of 10 per cent in residential work and of 2 per cent in heavy engineering construction being largely offset by an increase of 10 per cent in nonresidential building.

Commodity Prices

The downward movement in wholesale commodity prices, which has been in progress with only one sizable interruption since early last April, continued during most of November. Although a few individual commodities showed some recovery toward the end of the month, prices of many important products during the course of the month established new lows for the year, and in some cases for three or four years.

Livestock prices showed further substantial declines during November, and the average price of hogs on November 22 reached the lowest level since February, 1935. The cash quotation for the Number 1 grade of Northern wheat at Minneapolis on November 6 declined to \$1.04⅜ a bushel, the lowest since July, 1935, and although the subsequent movement was irregularly higher, the price at the end of November was \$1.08½, down 8⅞ cents for the month as a whole. Cash corn, after reaching in the middle of November the lowest level since May, 1934, advanced slightly, but ended the month at 53 cents a bushel, 3½ cents below October's close. The price of silk moved 16 cents lower to \$1.57½ a pound during November, and losses occurred also in wool and crude rubber. On the other hand, the price of raw sugar rose somewhat during November. The spot price of cotton declined in the early days of November to the lowest level since April, 1933, but recovered subsequently, and showed only a small net loss for the month as a whole.

In the metals group, a reduction of \$2 a ton lowered the price of scrap steel at Pittsburgh to \$13.25, a level \$10.50 below the March high and the lowest since June,



Movement of Prices of Actively Traded Commodities (Moody's Investors Service index; December 31, 1931 = 100 per cent)

1936. Tin declined 5½ cents to 42½ cents a pound during November, lead receded ½ cent to 5 cents a pound, and zinc decreased ½ cent to 5¼ cents a pound. In the domestic copper market, the custom smelters' price was reduced 1 cent to 10¾ cents a pound, and the leading producers lowered their price 1 cent to 11 cents a pound.

The extent of the recent decline in prices of actively traded commodities is indicated in the accompanying diagram, which shows fluctuations since 1929 in Moody's Investors Service index of 15 raw products. In the four years following the low reached in February, 1933 the movement was steadily upward, and by early April, 1937 the increase from the 1933 low amounted to about 190 per cent, a rise of sufficient proportions to cancel most of the 1929-1933 decline. In April, however, the trend was reversed and with the exception of an upturn in June and July, the average price of these commodities has moved steadily downward since that time. As a result, toward the end of November Moody's index was about 35 per cent below the April high and was at the lowest point since November, 1934, slightly more than one-half the advance between February, 1933 and April, 1937 having been canceled.

Department Store Trade

Sales of the reporting department stores in the Metropolitan area of New York tended, as in other years, to rise during the first half of November, but were about 4 per cent below the relatively high level of sales in the corresponding period of 1936.

October sales of the reporting department stores in this district showed virtually all of the usual seasonal increase over September. As compared with a year ago, total sales were about 1½ per cent lower, but, after allowing for one less shopping day this year than last, there was an increase over a year ago of approximately 2½ per cent in average daily sales. Total sales of the leading apparel stores in this district were 4.3 per cent below last year, and average daily sales about the same, following a small advance in September.

Department store stocks of merchandise on hand at the end of October were 10 per cent higher than a year ago, as compared with an average increase of 19 per cent in the first seven months of this year. Apparel store stocks were 5.4 per cent higher than a year ago. October collections by the department stores and also the apparel stores were lower than last year.

Locality	Percentage change October, 1937 compared with October, 1936		Per cent of accounts outstanding September 30 collected in October	
	Net sales	Stock on hand end of month	1936	1937
New York	— 2.2	+10.7	52.1	51.4
Buffalo	+ 2.0	+ 7.2	57.0	44.1
Rochester	+ 7.1	+ 7.8	52.6	53.0
Syracuse	+ 9.4	+13.4	42.9	44.3
Northern New Jersey	— 4.7	+10.9	44.7	44.9
Bridgeport	+11.7	+ 5.6	46.6	43.9
Elsewhere	— 0.2	+ 4.4	37.3	41.2
Northern New York State	— 4.9	......	....	....
Southern New York State	+ 0.3	......	....	....
Central New York State	+ 3.1	......	....	....
Hudson River Valley District	— 8.2	......	....	....
Capital District	+ 2.2	......	....	....
Westchester and Stamford	+ 2.9	......	....	....
Niagara Falls	+ 4.4	......	....	....
All department stores	— 1.6	+10.2	49.4	48.3
Apparel stores	— 4.3	+ 5.4	48.8	47.9

Wholesale Trade

In October total sales of the reporting wholesale firms averaged about 6½ per cent lower than last year, following two months in which increases had been reported. Sales of the shoe and paper concerns, and yardage sales of rayon and silk goods showed the largest decreases in over three years, and hardware sales were reduced by the largest percentage since January, 1936. Sales of the grocery, men's clothing, cotton goods, and stationery firms were smaller than in October a year ago, following the year-to-year increases in September, and the October increase in sales of drug concerns was less than in the previous month. The jewelry firms, however, recorded a smaller decrease in sales than in September, and the diamond concerns reported the largest gain since July.

Commodity	Percentage change October, 1937 compared with October, 1936		Per cent of accounts outstanding September 30 collected in October	
	Net sales	Stock end of month	1936	1937
Groceries	— 2.9	+ 5.1	93.1	94.4
Men's clothing	—10.5	......	43.6	40.9
Cotton goods	— 6.2	......	42.8	38.7
Rayon and silk goods	—37.1*	+13.2*	59.2	51.4
Shoes	—29.1	......	40.8	36.6
Drugs and drug sundries	+ 2.2‡	+15.6‡	....	....
Hardware	— 3.9	+22.5	48.0	43.0
Stationery	— 5.6	......	51.9	52.5
Paper	— 1.7	......	66.8	49.6
Diamonds	+23.8	+ 7.1	18.7 (Diamonds and Jewelry)	16.6 (Diamonds and Jewelry)
Jewelry	— 2.5	— 7.1		
Weighted average	— 6.6	......	59.5	56.7

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

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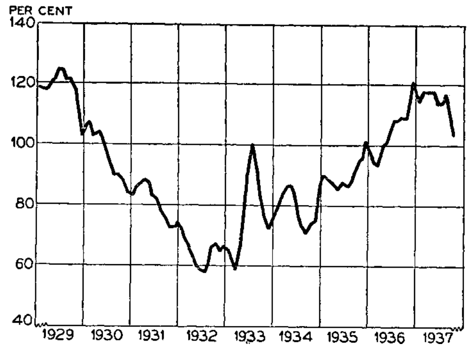
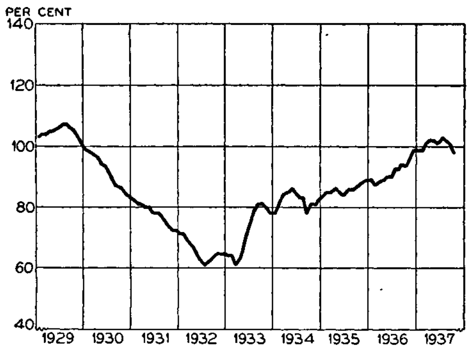
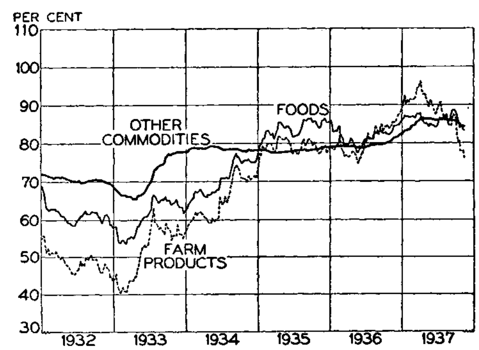


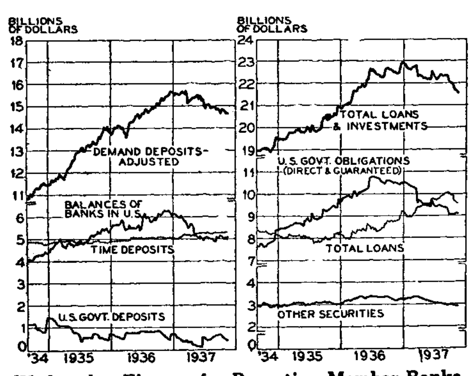
Index Number of Production of Manufactures and Minerals Combined, Adjusted for Seasonal Variation (1923-25 average=100 per cent)



Index of Factory Employment with Adjustment for Seasonal Variation (1923-25 average = 100 per cent)



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



Wednesday Figures for Reporting Member Banks (Latest figures are for November 17)

Business Conditions in the United States

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

VOLUME of industrial production showed a further sharp decrease in October and the first three weeks of November, and there was a reduction in employment. Commodity prices continued to decline. Distribution of commodities to consumers was maintained at the level of other recent months.

Production and Employment

In October the Board's seasonally adjusted index of industrial production was 103 per cent of the 1923-1925 average as compared with 111 per cent in September and an average of 116 per cent in the first eight months of this year. There was a marked curtailment of activity in the durable goods industries. Output of steel ingots, which had shown a steady decline since August, was at an average rate of 59 per cent of capacity in October and by the third week in November the rate had declined to 36 per cent. Automobile production increased considerably in October as most manufacturers began assembly of 1938 model cars. In the first three weeks of November output of automobiles showed little change from the level reached at the end of October, with assemblies by one leading manufacturer continuing in exceptionally small volume. Production of lumber and of plate glass declined further in October. In the nondurable goods industries, where output had been declining since the spring of this year, there was a further decrease in October. Cotton consumption showed a sharp reduction and activity at woolen mills and shoe factories continued to decline. There was an increase in output at sugar refineries, where activity had been at a low level in September. In most other lines changes in output were largely seasonal. Mineral production continued at about the level reached at the close of 1936 and maintained throughout this year.

Value of construction contracts awarded in October and the first half of November was smaller than in the preceding six weeks, according to figures of the F. W. Dodge Corporation. The decline was chiefly in private nonresidential construction.

Factory employment declined substantially in October and payrolls showed little change, although an increase is usual at this season. Declines in the number employed were reported by factories producing steel, machinery, lumber, and textiles, and in many smaller industries. There was a seasonal increase in employment at automobile factories. Employment and payrolls increased seasonally at mines and at establishments engaged in wholesale and retail trade.

Distribution

Sales at department stores and mail order sales increased seasonally in October. Throughout the year sales at department stores have been sustained, with seasonal fluctuations, and the Board's adjusted index of these sales has shown little change.

Freight car loadings declined in October and the first half of November, reflecting smaller shipments of forest products, ore, and miscellaneous freight.

Commodity Prices

Prices of industrial materials, particularly nonferrous metals, steel scrap, rubber, and hides, declined further from the middle of October to the third week of November, and there were some decreases in the prices of finished industrial products. Livestock and meat prices declined substantially and coffee prices dropped sharply following the announcement by Brazil of modification of its control policy.

Bank Credit

During the first half of November the Federal Reserve Banks purchased $28,525,000 of United States Government securities, in accordance with the policy adopted in September to provide additional reserves for meeting seasonal currency and other requirements. From the middle of October to November 17, excess reserves of member banks increased from about $1,000,000,000 to $1,100,000,000, reflecting the Federal Reserve security purchases and a considerable decline in required reserves at member banks in New York City, caused partly by a reduction in demand deposits arising from a liquidation of brokers loans.

Loans to brokers and dealers reported by banks in leading cities declined by $250,000,000 during the four weeks ended November 17. Commercial loans, following a steady increase for several months, declined after the middle of October. Member banks in New York City increased their holdings of United States Government securities by over $150,000,000 while banks outside New York City showed a further reduction. Deposits continued to show moderate reductions.