MONTHLY REVIEW
of Credit and Business Conditions
Second Federal Reserve District

Federal Reserve Bank, New York *January 1, 1938*

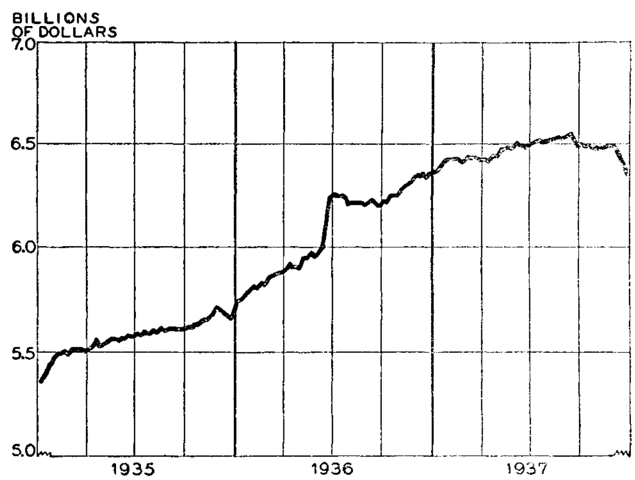
Money Market in December

Despite seasonal currency requirements and substantial movements of funds affecting bank reserves, member banks in New York and elsewhere continued to hold a large volume of excess reserves, and money market conditions remained easy, during the past month. On December 22, almost at the peak of the holiday demand for currency, excess reserves of all member banks throughout the country were approximately $1,010,000,000, a reduction of only $130,000,000 from November 24; and the principal New York City banks had about $300,000,000 of excess reserves, an amount somewhat smaller than a month previous but still ample for the prevention of any tightening in the New York money market.

The maintenance of this large volume of excess reserves in member banks reflected, in part, an unusually small increase in the amount of currency in circulation during the period of the holiday trade. Between November 24 and December 22, the amount of currency outstanding increased only $127,000,000, as compared with an estimated normal increase, between those dates, of about $225,000,000. As the accompanying diagram indicates, currency circulation, after adjustment for the usual seasonal changes, had shown a gradual shrinkage since the early part of September, accompanying the recession in business. The downward movement in the seasonally adjusted figures was greatly accelerated in December, a development which may have been due, not only to the cumulative effects of declining business activity, but also to the use of currency which, while classified as in circulation, had been withdrawn from the banks over a period and withheld from active use until recently. In the first few days after Christmas the seasonal return flow of currency from circulation appeared to be of nearly the usual proportions.

Other factors which tended to maintain an ample volume of excess reserves in the banks, and consequent easy money conditions, during the peak period of seasonal currency circulation, were a decline in reserve requirements of the banks and a substantial increase in the "float" at the Reserve Banks. The latter factor reflected delays, due to congestion of the mails, in the collection of checks, drafts, and other such items, presented to the various Federal Reserve Banks for collection, and on which payments were made by the Reserve Banks, in accordance with the usual time schedule, to the banks which presented them.

In connection with the Treasury financing on December 15, and the collection of fourth quarter income tax installments, there were movements of funds, which considerably exceeded, in volume, the seasonal currency withdrawals, but the transactions were so arranged as to have as little effect as possible on the reserve position of the banks. In advance of December 15 there were transfers of funds from New York to other districts reflecting, in part, purchases of Government securities by New York banks and dealers from holders in other parts of the country, but these losses of funds to New York were more than offset by Government disbursements in this district. On December 15 cash payments for the new Government securities issued on that date were exceeded, in New York, by interest payments on outstanding Government debt, and in the week following the 15th, income tax collections in this district were considerably more than offset by redemptions of Treasury bills which had been sold in July, August, and early September, to mature during the December tax period. In other districts, however, cash payments for the new Government securities, together with income tax payments, during the week beginning December 15, substantially exceeded receipts of interest on the Government debt and redemptions of maturing Treasury bills. In order to counteract these losses of funds, as well as to meet seasonal currency demands, other districts withdrew funds from New York in considerable volume.



Volume of Money in Circulation, Adjusted for Usual Seasonal Changes

Money Rates in New York

	Dec. 31, 1936	Nov. 30, 1937	Dec. 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	1.63	1.63
Average yield on Treasury notes (3-5 years)	1.13	1.30	†1.24
Average yield on Treasury bonds (more than 8 years to maturity or call date)	2.27	2.57	2.52
Average rate on latest Treasury bill sale			
78 day issue	0.11	....	....
107 day issue	....	0.12	....
91 day issue	....	....	0.10
Federal Reserve Bank of New York rediscount rate	1½	1	1
Federal Reserve Bank of New York buying rate for 90 day indorsed bills	½	½	½

* Nominal
† Change of +0.08 per cent due to dropping the 1½ per cent Treasury note issue maturing December 15, 1940, because it matures within 3 years, and including the new 1¾ per cent Treasury note issue dated December 15, due December 15, 1942.

The distribution of excess reserves among the various groups of member banks is an important factor currently influencing movements of funds between and within Federal Reserve Districts. An examination of the figures for the week of December 4 to 10 shows the following:

	Per cent excess reserves to required reserves*
Central Reserve City banks:	
New York	12
Chicago	17
Reserve City banks	18
Country banks	32
All member banks	18

* Approximate figures based on estimated reserve requirements.

Within these groups there were, of course, wide differences in the reserve position of individual banks. Further information concerning the reserve position of individual "country" member banks in this district has been obtained from a review of their figures for the latter half of November. The results are summarized in the following table.

Per cent excess reserves to required reserves	Number of banks	Per cent of total number of banks
Less than 10	165	24.7
10 to 19	139	20.9
20 to 29	102	15.3
30 to 49	97	14.6
50 to 99	95	14.2
100 and over	69	10.3
Total	667	100.0

As these figures indicate, 25 per cent of the "country" banks had on deposit in the Reserve Bank reserves less than 10 per cent in excess of their required reserves during the latter half of November, but about an equal number had more than 50 per cent of excess reserves, the remaining half of the banks being distributed in intermediate groups. In addition, a number of the banks had large balances on deposit with city correspondents. These balances, together with excess reserves on deposit in the Federal Reserve Bank, were equal to 100 per cent or more of reserve requirements in nearly half of the banks, and were equal to at least 50 per cent of reserve requirements in more than three-fourths of all "country" banks in this district. Only a part of the funds on deposit with city correspondents can be considered as the equivalent of excess reserves for the "country" banks, however, as such banks normally maintain substantial working balances with city correspondents for convenience in making settlements and to cover free services which they obtain from the city banks.

Member Bank Credit

The largest changes in the loans and investments of the weekly reporting member banks during the past month have been in Government security holdings. In the early part of December the New York City banks continued to increase their holdings of such securities, while there were partly offsetting reductions in the reporting banks in other principal cities. On December 15 substantial increases occurred in New York City and in the principal cities in other parts of the country, reflecting the purchases of new Government securities sold on that date, although there were indications that the new securities were rather widely distributed among other investors as well as among the banks. A considerable reduction in Government security holdings of the reporting banks occurred in the following week, reflecting chiefly the redemption of maturing Treasury bills. Nevertheless, for the four weeks ended December 22, Government security holdings showed a net increase of $70,000,000 in New York City banks and $30,000,000 in reporting member banks in other principal cities.

Commercial loans continued to decline in December, although much more slowly than in November and the latter part of October. The total decrease between the seasonal peak of October 13 and December 22 amounted to $152,000,000 in New York City and $99,000,000 in other principal cities. The volume of commercial loans, however, is estimated to have remained at least $250,000,000 larger on December 22 than a year previous in the large New York City banks, and about $600,000,000 larger in all reporting member banks.

Demand deposits, exclusive of Government and interbank deposits, and adjusted to exclude "float" between banks, increased somewhat in the early part of December, probably as a result of purchases of Government securities by New York banks and dealers from non-bank holders, but decreased subsequently, reflecting payments for new Government securities, income tax collections, and seasonal currency withdrawals, partly offset by the redemption of maturing Treasury bills held by non-bank investors. For the four weeks ended December 22, adjusted demand deposits in all reporting banks showed a net reduction of $242,000,000, but the reduction probably was at least partly seasonal and temporary in character. Time deposits also declined $72,000,000 between November 24 and December 22, apparently reflecting withdrawals of Christmas funds from the banks.

Government Securities

In all divisions of the Government security market, rising prices and declining yields prevailed during most of December. During the first part of the month, interest centered to a large extent in the new Treasury issues dated December 15, which were announced in a preliminary way on December 2 and in detail on December 6, but the enthusiastic reception accorded the new issues subsequently spread to other Treasury securities, reflecting at first immediate investment demand and, late in the month, activity in anticipation of further investment inquiry after the turn of the year.

The average price of Treasury bonds of more than 8 year term to call date or maturity registered for the past month an advance of over 5/8 of a point, of which about one third occurred before the terms of the new issues were announced; the sharpest advance, however, occurred in a period of a few days after the 15th. The new 2½ per cent Treasury bonds which were issued at par advanced to 102 20-23/32 on December 27, subsequently receding only slightly. At the levels prevailing toward the end of December, Treasury bond prices were about midway between the highs of December, 1936 and the lows reached at the beginning of April, 1937. In the shorter term Government securities, the advance of prices reduced the average yield on 3 to 5 year Treasury notes to 1.24 per cent, a decline for the month of about 1/8 per cent in comparable issues. The new 5 year notes issued December 15 were quoted at 101 19-21/32 toward the close of the month. Rates on the regular weekly sales of new Treasury bills and on outstanding Treasury bills also tended toward slightly lower levels during December.

The quarterly financing operations of the Treasury included the allotment of $540,900,000 of 2½ per cent 8 year bonds and $232,400,000 of 1¾ per cent 5 year notes, or a total of $773,300,000 of new securities, of which $260,800,000 were issued in exchange for Treasury notes maturing February 1, 1938, which had been outstanding in the amount of $276,700,000. The $512,500,000 of new bonds and notes allotted on cash subscriptions, however, did not result in a net increase of that amount in the public debt, inasmuch as $450,000,000 of Treasury bills maturing at the December tax period were retired without replacement. In addition to the new Treasury securities issued on the December quarter date, there were three issues of $50,000,000 of Treasury bills—on December 1, 8, and 15—which completed the series of $400,000,000 of bills maturing between March 16 and 19, 1938 that will offset the effect of income tax collections in that quarter. Also on December 22 and again on December 29, $50,000,000 of 91 day bills were sold, beginning a new series of Treasury bills. All of the five December issues of new bills replaced regular weekly maturities.

Bills and Commercial Paper

The condition of limited supply and active demand which has existed for some time past continued to prevail in the discount market for bills during December, and no change occurred in dealers' buying and selling rates. A further slight increase to $348,000,000 occurred during November in the volume of bills outstanding, but for the first time in 1937 the total was smaller than for the corresponding month of the preceding year. Domestic warehouse bills increased seasonally in November for the fifth consecutive month, and were outstanding in slightly larger volume than a year previous. Likewise export bills rose slightly and were outstanding in larger amount than a year ago. On the other hand, the amount of import bills declined further, although it remained somewhat higher than in November, 1936. The decline in the total outstanding as compared with a year ago is to be explained by the continued liquidation of bills based on goods stored in or shipped between foreign countries, and by some reduction in bills arising from domestic shipments.

(Millions of dollars)

Type of acceptance	Nov. 30, 1936	Oct. 30, 1937	Nov. 30, 1937
Import	112	127	122
Export	77	82	84
Domestic shipment	13	8	9
Domestic warehouse credit	70	66	71
Dollar exchange	1	1	1
Based on goods stored in or shipped between foreign countries	76	62	61
Total	349	346	348

In December commercial paper dealers continued to report a short supply of paper in relation to the current active bank investment demand for business notes, and the prevailing rate for average grade prime 4 to 6 month names was unchanged at 1 per cent. Commercial paper houses had a total of $311,000,000 of paper outstanding at the end of November as against $323,400,000 at the end of October. The November total, while the smallest since June, remained about 63 per cent larger than the total at the end of November, 1936.

Security Markets

During the first week of December the moderate recovery in stock prices which occurred in the closing days of November was extended somewhat further, with the result that on December 8 the general level of stock prices was about 12 per cent above the quotations of November 24, which in general were the lowest since June, 1935. Thereafter, irregular movements of stock prices prevailed in December, a decline of several points in the second week of the month being followed by an advance in the third week practically to the December 8 level, after which prices again moved lower. Toward the end of December, railroad stocks as a group established new low levels since April, 1935, and industrial and public utility shares were only slightly above their October-November lows. Stock turnover on the New York Stock Exchange receded further during the past month from the higher levels of activity reached for a while in September and October, and daily sales averaged about 1,100,000 shares.

High grade bonds were consistently firm throughout December; in addition to the strength in United States Treasury obligations previously referred to, both high grade domestic corporation and municipal bonds advanced moderately. The rise in the highest grade corporate issues for the month averaged about 1 point, according to Moody's Investors Service average for Aaa bonds, which reached a figure 2¼ points above the October low and 5½ points above the April low, and only about 3 points below the January, 1937 high. The movements of second grade corporation bonds were considerably more irregular than those of high grade issues, but there was also a net gain for the month, amounting, according to Moody's Baa average, to nearly 1 point, which increased the recovery from the November 24 low to about 2¼ points. This class of bonds, however, is considerably further below the January, 1937 peak than is the highest grade corporation group. Lower grade railroad bonds in a number of cases declined to new low points for the year near the end of December.

New Financing

New security offerings during December continued in about the same small volume as in November. The December total, including temporary municipal tax anticipation notes and Federal Intermediate Credit Bank short term debentures, was approximately $170,000,000, as compared with $150,000,000 in the preceding month and $750,000,000 in December, 1936. Excluding refunding issues from the total, approximately $110,000,000 of the past month's volume was for new capital purposes and temporary borrowing, as against about $118,000,000 in November and $267,000,000 in December, 1936.

December offerings of corporate securities amounted to approximately $40,000,000, or nearly the same amount as in November. There were only three issues of five million dollars or more. A $10,000,000 issue of West Virginia Pulp and Paper Company first mortgage 4½ per cent bonds of 1952, for new capital purposes, was offered at par and was promptly oversubscribed; $5,625,000 St. Joseph Railway, Light, Heat, and Power Company first mortgage 4½ per cent bonds of 1947, for refunding, priced at 99½, were successfully marketed; and $5,000,000 of International Business Machines Corporation 3½ per cent debentures of 1947, for additional working capital, were sold privately to an institutional investor. In addition, a $3,900,000 2¼ per cent equipment trust issue of the Atchison, Topeka and Santa Fe Railway maturing in 1 to 10 years was awarded on a bid of 101.5719, which represents the very low average interest cost to the borrower of about 1.95 per cent. Other corporate financing included two issues of preferred stock of industrial companies, one of which was offered to stockholders, a small equipment trust issue, two utility bond issues, one of which was sold privately to an insurance company, and several miscellaneous offerings.

Excluding $29,000,000 of temporary municipal loans for one year or less, State and local government issues totaled $73,000,000 in December, and included principally $11,210,000 New York City 2½ per cent bonds of 1939-53, $10,000,000 City of Chicago 3 per cent bonds of 1941-48, both for refunding, and $10,000,000 New York State 2½ per cent bonds of 1938-87. December financing by the Federal Intermediate Credit Banks consisted of the sale of $26,400,000 of short term debentures, while maturities amounted to $24,000,000.

Bidding by investment firms and banks on a number of the new issues of December was unusually active and resulted in interest costs on these issues equal to, or below, the previous low record costs for comparable issues and maturities. Several of the issues awarded were immediately disposed of by the successful bidders without public reoffering, chiefly to large institutional buyers. Some of the municipal issues publicly offered, on the other hand, met with a rather slow distribution, apparently owing to their low yields.

Foreign Exchanges

Foreign exchange rates fluctuated during December within an extremely narrow range in quiet trading. The dollar-sterling rate, for example, moved less than ¼ of one per cent on either side of $4.99½ while the dollar equivalent of the London gold price at the time of fixing gradually declined from $34.95 to $34.87, but remained well above the point where shipments of gold from England to the United States become profitable.

The French franc came under some pressure after the middle of the month as a result of uneasiness over Parliamentary discussions of the 1938 budget and a recurrence of strikes, but this pressure was reflected virtually not at all in the rates for spot francs. The French currency appreciated fractionally in the New York market over the month in consonance with the limited movement of the pound sterling, but declined in London from 147.09 francs per pound to 147.29. In the forward market pressure was more manifest, the rate on one month and three month franc contracts widening from 1¼ and 5⅛ points discount, respectively, at the opening of the month to 2½ and 9½ points at the year end. Other Continental currencies fluctuated only fractionally with the exception of the belga which, after remaining strong for the first half of the month, eased slightly when the Belgian loan floated in London went to a discount and when it became known that the Belgian Government intended to redeem two French franc loans in January, 1938, after repaying a Dutch credit in December.

Canadian exchange went from a premium of 3/64 per cent at the end of November to a discount of 7/64 per cent a month later, in accordance with the usual seasonal tendency occasioned by year-end dividend and interest payments and by the closing of the lake ports to shipping.

Foreign exchange control was reported to have been decreed by Brazil on December 23 and put in force on December 27, with the Bank of Brazil in control of all dealings in foreign exchange. A 3 per cent tax was levied against Brazilian purchases of foreign exchange for the purpose of creating an equalization fund. Foreign exchange transactions in Rio de Janeiro were suspended on December 27, despite the fact that the Bank of Brazil quoted temporary rates for the dollar, while in New York quotations for the milreis were nominal at $0.0525 compared with $0.0550 at the end of November.

Gold Movements

The reported gold stock of the United States showed a reduction of $14,000,000 during December, following a decline of $29,000,000 in November. The decline in the gold stock during December was accompanied by a further decrease of about $15,000,000 in the inactive gold account of the Treasury which coincided with exports of $15,000,000 of gold to France.

Gold imports into the United States totaling $23,500,000 and the release of $9,200,000 of gold from earmarked holdings for foreign account were not reflected in increases in the reported gold stock figures, inasmuch as they were offset by losses in other transactions. Such imports included $18,700,000 from Japan, $2,400,000 from Australia, $1,900,000 from Canada, $300,000 from Ecuador, $100,000 from Bolivia, and $100,000 from India, most of which was received on the Pacific Coast.

For the year 1937, the reported gold stock of the United States was increased by a net amount of $1,502,000,000, as compared with a gain of $1,133,000,000 in 1936. In 1935 there was an increase of $1,887,000,000 and in 1934 a rise of about $1,396,000,000, exclusive of the revaluation profit.

Central Bank Rate Changes

Effective December 18 the official discount rate of the Bank of Poland was reduced from 5 to 4½ per cent and the rate for advances from 6 to 5½ per cent. The higher rates had been in force since October 26, 1933.

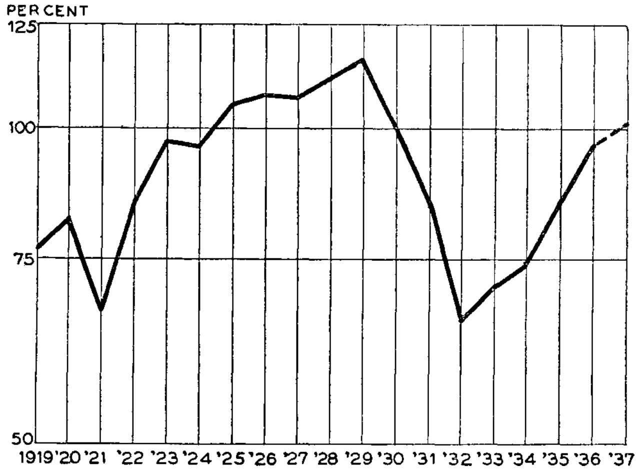
Production and Trade in 1937

Despite recession in numerous lines of business during the last quarter of the year, the volume of production and trade for the whole year 1937 is estimated to have totaled about 5 per cent more than in 1936, according to a preliminary compilation by this bank. Although the increase over the previous year was less than half that which occurred between 1935 and 1936, the recovery from the low level of 1932 was extended to 52 per cent, and the 1937 aggregate volume of business was about equal to that of 1930. Total production and trade in 1937, however, is estimated to have remained 13 per cent less than in 1929 and about 6½ per cent below the average for the years 1925 through 1928, in each of which there was a larger volume of business than in the year just closed, as the accompanying diagram indicates.

The diagram is constructed from this bank's final estimates of the volume of production and trade for the years 1919 to 1936, as derived from data on more than 200 business series, and from the preliminary estimate for 1937 computed from those principal series which are currently available and which have in the past given reasonably close approximations of the movement of the more comprehensive index. The data used in arriving at the preliminary estimate for 1937 included figures on the production of manufactures and minerals, agricultural production, building construction, and railroad car loadings of merchandise and miscellaneous freight. Actual figures for at least the first 11 months of 1937 were included, and estimates were made for the remaining periods of the year.

Mineral and metal production and agricultural output registered the largest percentage gains in 1937, amounting in both cases to approximately 9 per cent, and came close to equaling previous high levels; in the case of minerals and metals 1937 production was only 2 per cent below the 1929 level and agricultural output was within 3 per cent of the volume in 1931 which was the peak of recent years. Manufacturing output rose 4 per cent further in 1937, making a total advance from the 1932 low of 73 per cent, but remained about 8½ per cent less than in 1929 and was also somewhat less than in 1928.

In contrast to these lines in which output was relatively close to previous high levels in 1937, is the situation in building construction and in the volume of freight carried over the railroads. For the past year, it is estimated that the physical volume of construction work contracted for was not materially different than in the previous year, taking into consideration increases in building costs; although the 1937 volume shows a large percentage



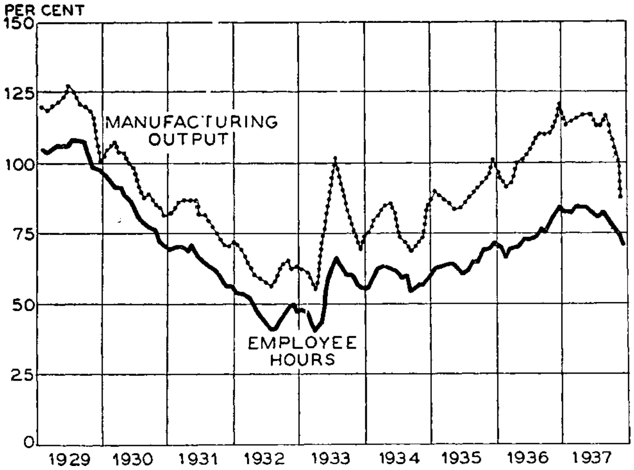
Index of General Production and Trade in the United States (Preliminary estimate for 1937 based on principal series—ratio scale used to show proportionate changes; 1923-25 average=100 per cent)

increase from the extremely low levels of 1932 and 1933, it remained only slightly more than one-half as large as the average for the 1925-29 period of active construction. Car loadings of merchandise and miscellaneous freight in 1937, although up 5 per cent from 1936 and 27 per cent from the 1932-33 level, were still 29 per cent below the 1929 total.

Production and Trade—November and December

Except for seasonal expansion in retail trade, business volumes appear to have declined further during December. In the steel industry, where contraction has been especially rapid, operations are estimated to have averaged about 25 per cent of capacity during December, which is the lowest monthly average since the fall of 1934. In November steel mills were operating at 38 per cent of capacity, and in December, 1936 at 76½ per cent. Assemblies of automobiles also declined in December, reflecting the well stocked position of dealers; cotton mill activity, despite a pickup in sales, was reported to have contracted further; and the usual seasonal expansion in electric power production failed to materialize. On the other hand, bituminous coal mining, apparently in anticipation of the price regulations effective December 16, tended to increase during the early part of the month. Railway freight car loadings declined seasonally in the first half of December, while sales of department stores in the New York area through December 24 showed a gain of approximately the usual seasonal proportions over November.

November was marked by a further contraction in the volume of industrial production, by a larger than usual decline in the movement of freight over the railroads, and by a moderate recession in retail trade. Department store sales for the country as a whole were somewhat lower than in October, and sales in the Second District increased less than usual. Recessions from the previous month also occurred in mail order house sales and in the volume of check transactions throughout the country, and sales of chain stores other than grocery declined, contrary to the movement of the past few years. The seasonally adjusted index of grocery chain store sales, on the other hand, was higher than in October. Preliminary data on automobile registrations indicate



Index Numbers of Manufacturing Output and Employee Hours Worked in Factories, Adjusted for Seasonal Variation (Board of Governors of the Federal Reserve System index of production of manufactures; employee hours index based on Bureau of Labor Statistics and National Industrial Conference Board data; 1923-25 average=100 per cent)

little change from October to November, as compared with sharp increases in 1935 and 1936.

Steel production declined by approximately one-third in November, bituminous coal mining contracted more than ordinarily, and copper production and electric power output also were lower than in October. Average daily cotton consumption by textile mills was reduced 11 per cent from October to November to the lowest point since September, 1935, and there were seasonal declines in the production of cement and in the manufacture of tobacco products. A small increase occurred in the number of automobile assemblies, but the gain was considerably smaller than in November of either 1935 or 1936. The dollar volume of machine tool orders, sustained partly by foreign business, was reduced only moderately between October and November and shipments continued at a high level.

The decline which has occurred in manufacturing operations since August has been unusually rapid. As is indicated in the accompanying diagram, the seasonally adjusted index of manufactures calculated by the Board of Governors of the Federal Reserve System declined from 118 in August to 87 in November, the lowest point since the summer of 1935. Another and a somewhat broader measurement of manufacturing operations obtainable from data on employee-hours worked, adjusted for seasonal variation, is also shown in the diagram. This index of employee-hours affords a more comprehensive coverage of manufacturing activities, as it includes industries, such as the manufacture of machinery, where the output does not lend itself to numerical count. As the diagram indicates, the employee-hours index also declined between August and November, but the decrease was 15 per cent as compared with 26 per cent for the index of manufactures. While there are other influences which create differences between the two indexes, such as technological changes in production methods, and the fact that fluctuations in employee-hours and output may not necessarily be proportionate, it appears that the index of manufactures at some times tends to overstate movements in the field of manufacturing as a whole.

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

	1936	1937		
	Nov.	Sept.	Oct.	Nov.
Industrial Production				
Steel	106	103	79	52
Copper	98	110	108	92
Passenger cars	97	145	135	79
Motor trucks	96	124	62	106
Bituminous coal	101	92	86	81*p*
Crude petroleum	86	98	97	94*p*
Electric power	94	96	94	90*p*
Cotton consumption	108	102	88	79
Wool consumption	122*r*	84	58	49*p*
Shoes	122	91	85*p*	79*p*
Meat packing	108	82	86	84
Tobacco products	95	93	95	94
Cement	76	59	63	62
Machine tool orders*	150	206	143	121
Employment				
Employment, manufacturing, U. S.	97	102	100	95*p*
Employee hours, manufacturing, U. S.	93	88	88	80*p*
Construction				
Residential building contracts	37	27	25*r*	28
Nonresidential building and engineering contracts	64	44	46*r*	54
Primary Distribution				
Car loadings, merchandise and misc.	78	74	71	68
Car loadings, other	87	85	80	73
Exports	65	86	86	86*p*
Imports	88	88	82	84*p*
Distribution to Consumer				
Department store sales, U. S.	97	89	89	87
Department store sales, 2nd District	92	82	82	81
Chain grocery sales	99	94	94	98*p*
Other chain store sales *r*	98	98	99	93
Mail order house sales	95	93	93	82
New passenger car registrations	97	107	117	78
Money Payments				
Bank debits, outside New York City	69	66	66*p*	63*p*
Bank debits, New York City	50	37	40	40*p*
Velocity of demand deposits, outside New York City**	75	69	70	72
Velocity of demand deposits, New York City**	55	45	47	44
General price level#	158	161	159	156*p*
Cost of living#	147	153	153	152*p*
Composite index of wages# *r*	220	241	243	243*p*

p Preliminary. *r* Revised. * Not adjusted for price changes.
** 1919-1925 average = 100 per cent. # 1913 average = 100; not adjusted for trend.

Employment and Payrolls

Between the middle of October and the middle of November marked reductions took place in working forces and in payrolls. On the basis of reports from approximately 125,000 concerns in manufacturing and nonmanufacturing industries, the United States Bureau of Labor Statistics estimates that nearly 570,000 fewer persons were employed in November than a month earlier and weekly payrolls were $25,900,000 smaller. However, the total number of persons employed was approximately the same as in November, 1936, and despite shorter working hours, weekly payrolls were $11,000,000 higher.

Factory employment and payrolls, affected by the general slackening of business activity, as well as the usual seasonal curtailment, declined sharply from October to November. The decrease in factory employment exceeded that recorded in any November since 1920 and factory payrolls declined to a greater extent than in any November since the compilation of comparable figures was begun in 1919. Payroll declines tended to be more pronounced than reductions in employment, owing to reduced operating schedules and also to plant shutdowns on Election Day and Armistice Day. Factory employment was 2.3 per cent lower in November than in the corresponding period of a year previous, representing the first year-to-year decrease since June, 1935. Factory payrolls were 1.5 per cent below the November, 1936 level, the first year-to-year reduction since September, 1934.

Among the nonmanufacturing industries, 15 of the 16 groups surveyed by the Bureau of Labor Statistics reported fewer workers employed in November than in October. Seasonal dulness in private building construction and in metalliferous mining accounted for the largest reduction in working forces, although in addition employment in retail trade showed a contraseasonal decline.

Employment and payrolls in New York State factories also showed reductions from mid-October to mid-November considerably in excess of the usual seasonal declines. This bank's seasonally adjusted index of New York State factory employment showed a decrease of 2.6 per cent and the adjusted payroll index a decline of 4.9 per cent. The level of employment in November remained 0.4 per cent above a year ago, however, and payrolls were 2.2 per cent higher. The reduction in employment in November was general, all of the major industrial classifications reporting fewer workers than in October.

Commodity Prices

Although individual prices showed diverse changes, the general average of prices of actively traded commodities moved slightly higher during December. Moody's Investors Service index of 15 raw products, which on November 24 reached a point 37 per cent below the April high, closed December about 3 per cent above the recent low. However, the Bureau of Labor Statistics index, which is composed of a large number of items, including semimanufactured and finished goods, failed to show during the past month any reversal of the recent declining tendency.

The largest gain during December was shown in the cash price of corn at Chicago, which rose 6⅜ cents to 59⅜ cents a bushel. A large export demand for corn in the United States developed toward the end of the month as a result of reports of deterioration of the growing Argentine crop and the small exportable surplus there. Cash wheat at Minneapolis increased to $1.16½ a bushel on December 8, and although subsequently declining to $1.13¾, remained 5¼ cents above the end of November quotation. The advance in cotton prices, which began in the early part of November, continued during most of December, and the spot quotation showed a net advance of 31 points to 8.35 cents a pound. In the ferrous metal group, the price of scrap steel at Pittsburgh rose $1 to $14.25 a ton during the month, and the price at Chicago increased $1 a ton to $12.75. These advances in scrap steel prices are the first since last August.

Most of the nonferrous metals, however, showed net declines for December. The smelters' price for copper was lowered ⅝ cent further to 10⅛ cents a pound, while the producers' price remained at 11 cents. Lead declined an additional ¼ cent to 4¾ cents a pound, zinc receded ¼ cent further to 5 cents a pound, and the price of tin showed a small net loss despite some advance in the early days of the month. Among other commodities, the average price of hogs, although advancing in the latter part of December, showed a net loss of 57 cents to $7.86 a hundredweight, the average price of steers receded $2.00 a hundredweight further to $9.46, and moderate net losses also occurred in the prices of silk, hides, crude rubber, and sugar.

Building

The total of building and engineering contracts awarded in the 37 States surveyed by the F. W. Dodge Corporation declined slightly in November, but on an average daily basis the rate at which contracts were placed was approximately 7 per cent higher than in October. Residential building showed practically no change in the average daily rate, and a decline in commercial and factory building was more than offset by gains in other types of nonresidential work and in heavy engineering projects. The volume of public construction projects increased 20 per cent in November, representing a reversal of the declining tendency in such construction which had been in evidence since last July. Privately financed work, however, decreased 15 per cent from October to November. Total contracts in November were approximately 9 per cent lower than a year earlier, but for the first eleven months of the year the value was 9 per cent higher.

In the New York and Northern New Jersey area average daily construction contracts in November were 14 per cent lower than in October, although residential work was 15 per cent higher. Total contracts awarded in November were 9 per cent below the November, 1936 level, but for the first eleven months of 1937 were 16 per cent higher.

Data for the first three weeks of December indicate a decrease of 3½ per cent from November in the rate of construction contracts in the 37 States. Residential building declined by considerably more than the usual seasonal proportions, but heavy engineering construction was practically unchanged and nonresidential building advanced contraseasonally owing in part to large educational projects. Compared with the corresponding period of December, 1936, total contracts were about 4 per cent higher, advances of 44 per cent in nonresidential building and 3 per cent in heavy engineering construction exceeding a decline of 34 per cent in residential building.

Foreign Trade

During November merchandise exports from this country were valued at $315,000,000 and imports at $223,000,000, both being seasonally smaller than in the preceding month. Compared with a year previous, exports showed an increase in value of 39 per cent and imports gained 14 per cent, and in fact both were larger than in November of any year since 1929. The November excess of exports over imports of $92,000,000 increased the net export balance for the first eleven months of 1937 to $152,000,000, as compared with an export balance of $33,000,000 for the entire calendar year 1936.

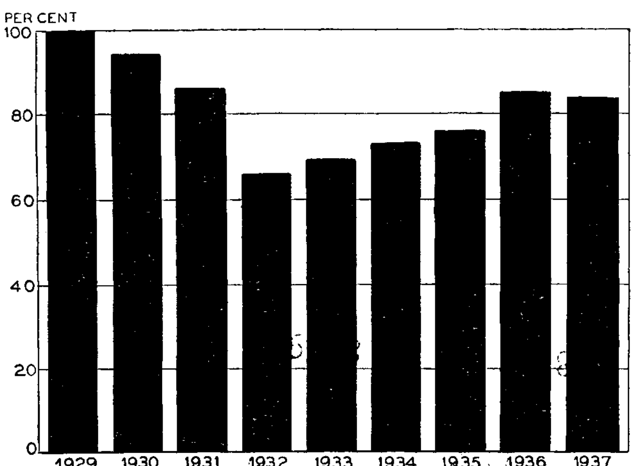
Exports during November of the majority of individual commodities showed increases over a year previous. Exceptional gains occurred in shipments of food products, notably grains, due chiefly to the combination this year of larger crops in the United States and generally smaller ones in other countries. Exports of raw cotton, although larger in volume, were smaller in value than in 1936, the result of a sizable decrease in the price of cotton. Shipments of cotton to the United Kingdom were more than double the volume of a year previous, while exports of this commodity to Japan were reduced to almost negligible proportions.

November imports of coffee, sugar, jute, rubber, tin, and paper products were substantially larger in quantity and value than a year previous. On the other hand, imports of such commodities as grains, nuts, unmanufactured wool, raw silk, flax, furs, and nickel were smaller than in November, 1936, and offset to considerable extent the gains in other imports.

Department Store Trade

For the Christmas shopping period, December 1 to 24 inclusive, total sales of the reporting department stores in the Metropolitan area of New York were 2 per cent lower than in the corresponding period of 1936, whereas in the first 13 shopping days of December sales had been 2.9 per cent higher than in the previous year. On the basis of the figures for the first 24 days of the month, however, it appears that December sales in the Second Federal Reserve District showed approximately the usual seasonal increase over November and excluding December, 1936, were the largest for any December since 1931, as is indicated in the accompanying diagram. Total sales for the year 1937, based on final figures for 11 months and the estimate for the full month of December, were about 3½ per cent higher than in 1936, as compared with an increase of 9.7 per cent between 1935 and 1936.

In November, total sales of the reporting department stores in this district showed a reduction of approximately 1 per cent and average daily sales a decrease of about 5 per cent from November, 1936, which, however, was a month of comparatively large retail sales. Total sales of the leading apparel stores in this district were 8½ per cent lower than in November, 1936, and average daily sales approximately 12½ per cent lower.



December Department Store Sales in the Second Federal Reserve District (December, 1929=100 per cent; December, 1937, partly estimated)

Department store stocks of merchandise on hand at the end of November were about 6 per cent higher than at the end of November, 1936, the smallest year-to-year increase since October, 1936. The rate of collections during November, 1937 was slightly higher than a year previous in the department stores, but was unchanged in the apparel stores.

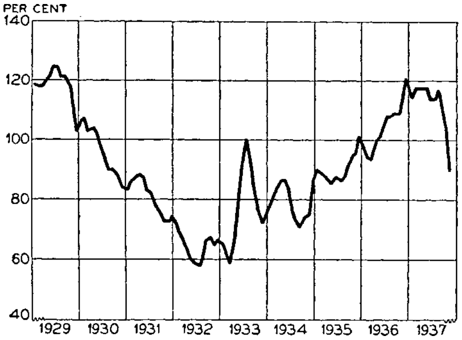
Locality	Percentage change November, 1937 compared with November, 1936: Net sales	Stock on hand end of month	Per cent of accounts outstanding October 30 collected in November: 1936	1937
New York	—0.5	+ 5.8	51.8	52.7
Buffalo	—4.6	+ 9.2	44.4	43.2
Rochester	+5.7	+ 7.6	50.6	51.4
Syracuse	+7.2	+10.7	39.7	40.0
Northern New Jersey	—3.8	+ 5.7	45.0	45.8
Bridgeport	—2.2	+ 4.3	44.0	41.7
Elsewhere	+1.1	+ 3.9	35.9	34.8
Northern New York State	—6.4	......	....	....
Southern New York State	+1.9	......	....	....
Central New York State	—3.8	......	....	....
Hudson River Valley District	+0.9	......	....	....
Capital District	+4.4	......	....	....
Westchester & Stamford	+1.2	......	....	....
Niagara Falls	—4.2	......	....	....
All department stores	—0.8	+ 6.1	48.1	48.4
Apparel stores	—8.5	+ 4.8	48.1	48.1

Wholesale Trade

November sales of the reporting wholesale firms averaged about 12 per cent lower than in November, 1936, the largest year-to-year decrease since March, 1933. Sales of the men's clothing, diamond, and jewelry concerns showed the largest reductions from the previous year in over four years, and sales of the cotton goods firms declined by the largest percentage in over two years. As in the previous month, substantial decreases were reported in shoe sales and in yardage sales of rayon and silk goods. Small reductions were again shown in grocery and hardware sales. Sales of the reporting drug, stationery, and paper concerns, on the other hand, were higher than in November, 1936.

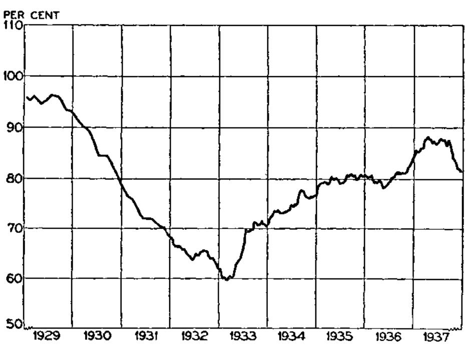
Commodity	Percentage change November, 1937 compared with November, 1936: Net sales	Stock end of month	Per cent of accounts outstanding October 30 collected in November: 1936	1937
Groceries	— 0.3	+ 9.4	84.5	91.4
Men's clothing	—30.9	......	36.1	32.7
Cotton goods	—13.4	......	39.6	37.8
Rayon and silk goods	—28.7*	+13.7*	60.0	54.4
Shoes	—24.0	......	41.4	39.3
Drugs and drug sundries	+ 4.2**	+ 8.4**	....	....
Hardware	— 2.9	+17.7	46.6	42.7
Stationery	+ 9.4	......	56.5	51.9
Paper	+ 5.4	......	55.6	50.2
Diamonds	—35.5	+33.2	} 15.8	} 12.8
Jewelry	—21.3	—10.8		
Weighted average	—11.9	......	54.7	54.3

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

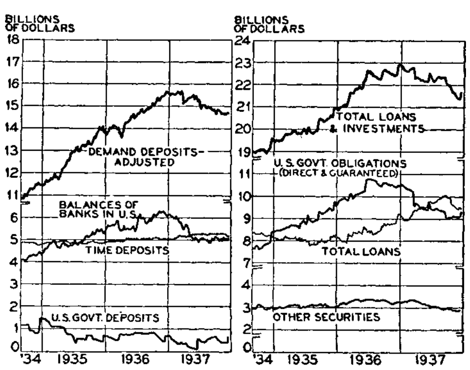


Index Number of Production of Manufactures and Minerals Combined, Adjusted for Seasonal Variation (1923-25 average=100 per cent)

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



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



Wednesday Figures for Reporting Member Banks (Latest figures are for December 15)

Business Conditions in the United States

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

IN NOVEMBER, volume of industrial production continued to decline sharply, and employment and payrolls also decreased. During the first half of November commodity prices declined further but for the past month they have been steady.

Production and Employment

Volume of industrial output, as measured by the Board's seasonally adjusted index, declined from 103 per cent of the 1923-1925 average in October to 90 per cent in November, reflecting chiefly a sharp reduction in the manufacture of durable goods. There was a further curtailment of activity at steel mills and output for the month was at a rate of 38 per cent of capacity, a decline of one-third from October. In the first three weeks of December steel production was at about 28 per cent of capacity. Output of lumber and plate glass also declined substantially in November, and automobile production showed considerably less than the usual seasonal increase. Production of nondurable goods, which had decreased by a substantial amount earlier this year, declined further in November, reflecting a continued reduction in output of textiles and shoes, partly offset in the total by an increase in activity at sugar refineries. Output of minerals, as well as manufactures, declined in November. There were marked decreases in output of bituminous coal and in iron ore shipments, while crude petroleum production continued in large volume.

Total value of construction contracts awarded, as reported by the F. W. Dodge Corporation, showed little change in November and the first half of December. Awards for privately financed projects declined, reflecting chiefly a further reduction in residential building, while contracts for publicly financed work increased.

Employment and payrolls at factories showed an unusually sharp decline between the middle of October and the middle of November, and there were decreases also in the number employed in trade and other nonmanufacturing lines. The Board's seasonally adjusted index of factory employment was at 94 per cent of the 1923-1925 average in November as compared with a level of 102 last summer and 96 in November last year. In the steel, machinery, lumber, and textile industries the number employed decreased by substantially more than the usual seasonal amount, and there was some decline at automobile factories, although an increase is usual at this season. There were declines also in the seasonally adjusted indexes for most other lines, except foods and tobacco which showed little change.

Agriculture

Department of Agriculture estimates recently issued indicate that most crops will be about the same size as forecast earlier but that cash farm income will be lower than had been anticipated, largely because of price declines both for crops and livestock. Cash income in 1937 is expected to be $8,500,000,000, as compared with $7,918,000,000 in 1936. The increase over a year ago is due primarily to increased income from marketings of wheat, tobacco, and fruits and to larger Government payments.

Distribution

Distribution of commodities to consumers, which earlier had been maintained, declined slightly in November. There was a slight decline in sales at department stores, and mail order sales decreased considerably, while sales at variety stores showed little change. Preliminary information for the first half of December indicates that department store sales increased by approximately the usual seasonal amount.

Freight car loadings declined by considerably more than the seasonal amount in November and the Board's adjusted index for that month was 71 per cent of the 1923-1925 average as compared with 76 per cent in October and an average of 81 per cent in the first half of the year. The decline from October to November reflected principally marked decreases in loadings of coal and miscellaneous freight.

Commodity Prices

The general level of wholesale commodity prices, which had declined sharply from the latter part of September to the third week of November, has shown little change since that time. Prices of nonferrous metals, leather, wool, textile yarns, and finished cotton goods have declined somewhat further in this period, while steel scrap, hides, rubber, cotton, print cloths, and bituminous coal have recently shown some advance.

Bank Credit

Excess reserves of member banks showed a small decline but for the first three weeks of December remained somewhat over $1,000,000,000. The increase in demand for currency during December has been smaller than usual, reflecting largely the effects of the recent sharp decline in business activity and payrolls.

Total loans and investments of reporting member banks in 101 leading cities increased somewhat during the four weeks ended December 15, reflecting a growth of $190,000,000 in holdings of United States Government obligations, mostly in New York City. A factor in this increase was the purchase by banks of the December 15 issues of Government securities. Commercial loans, which had begun to decline in October, showed a further reduction.