

MONTHLY REVIEW

of Credit and Business Conditions

Second Federal Reserve District

Federal Reserve Bank, New York

February 1, 1938

Money Market in January

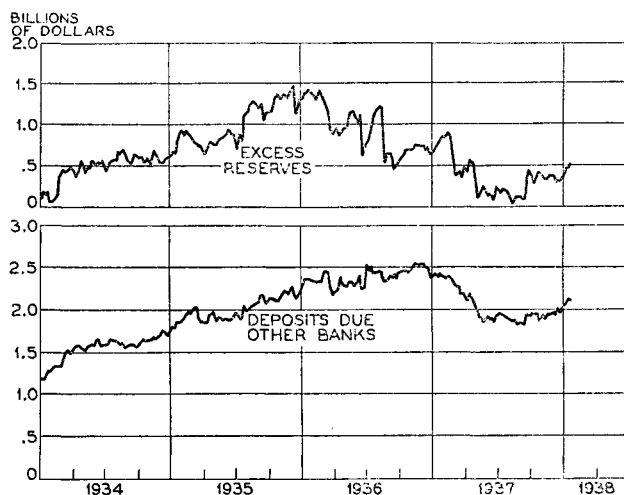
Total reserves of all member banks rose to successive new high levels in January and on January 26 were close to \$7,300,000,000, an amount more than three times the average volume in the years 1927 to 1929. Despite the higher level of reserve requirements, member banks had \$1,440,000,000 of excess reserves on January 26, or more than twice the amount held at the low point of the past year, which was reached early last August, and a far larger amount than was held by member banks at any time during the two years of deepest depression, 1932 and 1933.

The increase in excess reserves in the five weeks between December 22 and January 26 was \$430,000,000, and was due chiefly to the seasonal reduction in the amount of currency in circulation. During the five week period, the amount of currency outstanding declined \$387,000,000, as compared with a total increase between July 28 and December 22 of \$257,000,000. This relatively large reduction in the amount of currency outstanding during the past month indicates a continuation of the downward trend in currency circulation, which appeared after the early part of last September, accompanying the rapid recession in business activity.

The large New York City banks obtained a substantial share of the increase in excess reserves during the past month, partly because banks in other localities deposited idle funds in their accounts with their New York City correspondents instead of placing them on deposit in their reserve accounts with their respective Federal Reserve Banks. Consequently, on January 26, the New York City banks held more than \$500,000,000 of excess reserves, the largest amount since the latter part of April, before the final increase in reserve requirements became effective. As the accompanying diagram indicates, the amount of deposits held by the New York City banks for other banks also rose in January to the highest level since April. Since early last September the volume of excess reserves held by the New York City banks has increased by more than \$400,000,000, partly because of the renewed accumulation of idle funds of banks in other localities in New York balances, and partly because of the payments received by the New York City banks from the Treasury for maturing Treasury bills after the middle of September, following the release by the Treasury of \$300,000,000 of gold from the inactive gold account.

Apparently reflecting the increasing volume of idle funds available for employment, the banks have shown an increased tendency to add to their investment holdings, especially as the demand for loans has continued to diminish. Holdings of Government securities by the weekly reporting New York City banks during the four weeks ended January 26 increased \$119,000,000, and showed a total increase of \$365,000,000 from the low point reached in the latter part of last September. Investments in Government guaranteed securities and other securities have also increased during recent weeks, but by smaller amounts than direct obligations of the Government. Reporting member banks in other principal cities also have increased their investments slightly during the past few weeks.

Reflecting the increased demand for high grade securities, yields on all classes of Government securities declined further during the first three weeks of January, and there were accompanying declines in yields on high grade municipal and corporation bonds, except for railroad issues, which, even in the case of high grade securities, appear to have been adversely affected by the failure of the Erie Railroad to meet its interest payments on January 1 and by the subsequent application of the Erie for reorganization under Section 77 of the Bankruptcy Act. Later in the month, however, there was some recession in the general level of prices of high



Changes in Excess Reserves of New York City Banks Compared with Changes in the Volume of Funds of Other Domestic Banks on Deposit in the New York City Banks

grade securities, and an accompanying rise in yields. Short term money rates in the New York market remained at the previous low levels.

Money Rates in New York

	Jan. 30, 1937	Dec. 31, 1937	Jan. 29, 1938
Stock Exchange call loans.....	1	1	1
Stock Exchange 90 day loans.....	*1 1/4	*1 1/4	*1 1/4
Prime commercial paper—4 to 6 months	3/4	1	1
Bills—90 day unindorsed.....	1/4	1/2	1/2
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).....	1.22	1.23	1.15
Average yield on Treasury bonds (more than 8 years to maturity or call date)	2.32	2.51	2.47
Average rate on latest Treasury bill sale			
273 day issue.....	0.36		
91 day issue.....	....	0.10	0.10
Federal Reserve Bank of New York re- discount rate.....	1 1/2	1	1
Federal Reserve Bank of New York buying rate for 90 day indorsed bills.	1/2	1/2	1/2

* Nominal

A downward tendency, partly seasonal in character, continued in the loans of the reporting member banks. In the New York City banks, loans to security brokers and dealers were reduced \$68,000,000 further during the four weeks ended January 26, and were \$365,000,000, or about one-third, lower than a year ago. Commercial loans in these banks declined \$101,000,000 further during the past month, and were about midway between the high point of last October and the seasonal low point of a year ago. In other principal cities, also, the seasonal decline in bank loans continued, although at a less rapid rate than in the New York City banks.

GOVERNMENT SECURITIES

Prices of Government securities advanced strongly in the first two and a half weeks of January, under the impetus of an expanding demand, chiefly on the part of commercial and savings banks. During this period, the average gain in Treasury bonds of more than 8 year term to call date or maturity amounted to more than 3/4 of a point, an increase which followed a rise of nearly 3/4 of a point in December. As a result the average price of Treasury bonds came within approximately 3 points of reaching the December, 1936 high, and was about 1 1/4 points above the intervening peak of August, 1937. The 2 1/2 per cent Treasury bonds of 1945 which were issued on December 15 at par rose as high as 103 19-21/32 on January 20. Subsequently, a recession occurred which canceled about two-thirds of the rise in the first three weeks of January, but the market became steadier near the end of the month. The average yield on Treasury bonds of more than 8 year term, after declining as low as 2.43 per cent, rose to around 2.48 per cent near the end of January, but was then only slightly more than 1/4 per cent above the lowest average yield reached in December, 1936.

Prices of Treasury notes likewise advanced considerably during the first part of January, so that by January 18 the average yield on 3 to 5 year maturities reached 1.07 per cent, as compared with 1.23 per cent at the end of December, and a low of 0.92 per cent in December, 1936. In the latter part of January there was some reversal of the movement of the earlier part of January in the Treasury note market also, and the average yield

advanced to 1.17 per cent, but receded to 1.15 per cent near the end of the month.

Four weekly issues of \$50,000,000 of 91 day Treasury bills were sold during January at average rates ranging from 0.065 to 0.111 per cent, in replacement of 273 day bills which matured in corresponding amounts.

BILLS AND COMMERCIAL PAPER

Bill dealers continued to transact only a moderate volume of business during January, the active investment demand in existence for some time past remaining in considerable part unfilled, as only small quantities of acceptances continued to be made available to dealers for resale in the discount market. Rates for bankers acceptances held at the levels in effect since the beginning of last summer. Bills outstanding declined about \$5,000,000, during December, an amount sufficient to cancel the aggregate increase of the preceding three months. The decrease for the month was due to a smaller volume of bills representing import transactions, storage of goods in or shipments between foreign countries, domestic shipments of goods, and goods stored in domestic warehouses; some increase occurred in outstanding bills drawn to finance export and dollar exchange transactions. As against a year ago, bills at the end of December showed a reduction of \$30,000,000. Accepting banks and bankers continued to hold about 80 per cent of all bills drawn, leaving approximately \$65,000,000 for investment by others.

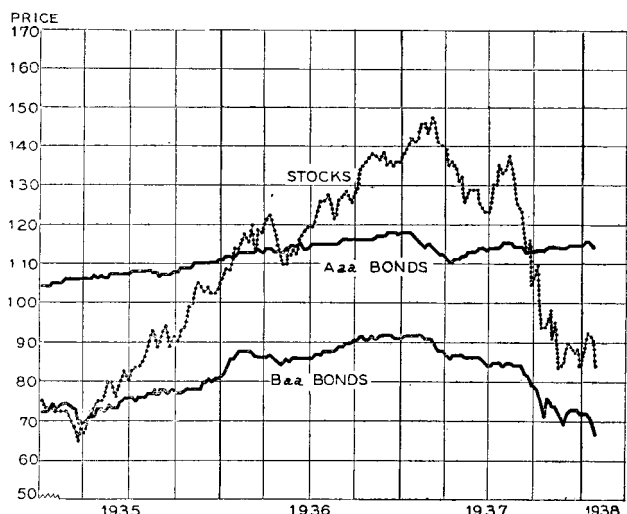
(Millions of dollars)

Type of acceptance	Dec. 31, 1936	Nov. 30, 1937	Dec. 31, 1937
Import.....	126	122	117
Export.....	86	84	87
Domestic shipment.....	12	9	8
Domestic warehouse credit.....	71	71	70
Dollar exchange.....	2	1	2
Based on goods stored in or shipped be- tween foreign countries.....	76	61	59
Total.....	373	348	343

Although dealers reported a somewhat larger supply of new commercial paper during January, the amounts currently acquired and reoffered to banking investors again fell short of the continued active demand for business notes. The new paper entering the market included a sizable volume of choice notes maturing in three months or less, which were readily absorbed at an interest rate of 3/4 per cent, indicating a slight tendency toward lower rate levels in the commercial paper market. For the average grade prime 4 to 6 month notes, however, the rate remained at 1 per cent, and this class of commercial paper continued to represent the larger portion of sales. A total of \$279,200,000 of paper was outstanding through commercial paper brokers at the end of December, as compared with \$311,000,000 at the end of November, and \$215,200,000 in December, 1936.

Security Markets

Coincident with the strength in Government security prices in the first part of the month, the high grade corporation bond list advanced during the first eleven days of January, and then held these higher average quotations until after the middle of the month. The average price of Aaa bonds, according to Moody's In-



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

vestors Service, reached a figure about 31½ points above the October, 1937 low, nearly 6¾ points above the April, 1937 low, and only 2½ points below the January, 1937 high. High grade industrial and public utility bonds at this period nearly equaled the highest prices reached in January, 1937, but high grade railroad bonds remained some 6 points lower. After the middle of the past month, declines developed in high grade bond prices, the largest declines occurring in railroad and industrial issues.

The average price of second grade bonds also showed a firmer tendency during the first ten days of January, reaching a figure some 3 points above the low of late November. The advance, however, was limited entirely to industrial and public utility issues, as railroad bonds continued to be adversely influenced by declining traffic volumes, and were greatly affected by the financial difficulties of the Erie Railroad Company which culminated in the filing by that company of an application on January 18 to reorganize under Section 77 of the Bankruptcy Act. Subsequent declines in railroad issues, together with moderate declines in medium grade industrial and public utility bonds in the second half of the month reduced the average price of Baa issues by 6¼ points to a new low for several years.

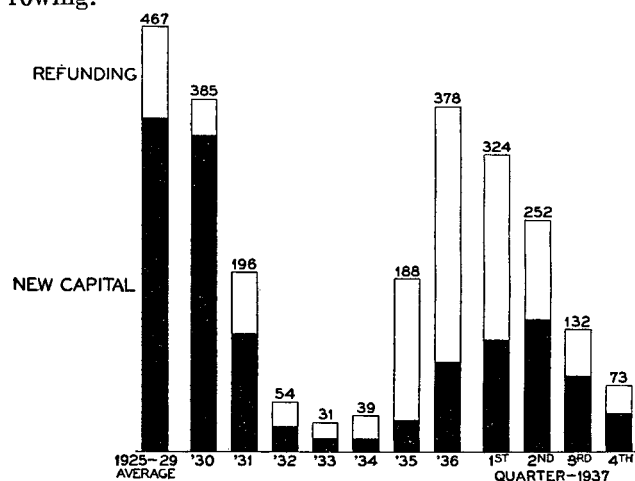
An advance likewise occurred in stock prices during the first eleven days of January and was followed by steadiness through the middle of the month. Prices around this time averaged approximately 18 per cent above those prevailing at the lowest points reached in the last quarter of 1937, and indicated the recovery of about one-fifth of the loss sustained on the decline which was in progress during much of 1937. The rise in industrial stocks amounted to about 21 per cent, while the recovery in railroad and public utility shares was considerably smaller. In the second half of the month, stock prices generally followed a downward course, so that toward the end of January the industrial share prices were not greatly above the November, 1937 low, and the rails and utilities were down to new low levels since the first part of 1935. Trading on the New York Stock Exchange generally was in small volume throughout January.

New Financing

Preliminary figures for new security financing during January indicate a volume of \$60,000,000 of corporate issues, as against \$57,000,000 reported by the Commercial and Financial Chronicle for December, and a total for municipal bonds of about \$40,000,000, or about half the Chronicle's total for December. Both groups are far below the levels prevailing a year ago. The principal corporate issues were \$30,000,000 of Consolidated Edison Company of New York 3½ per cent debentures of 1958, offered at 101¾; \$9,000,000 Consumers Power Company first mortgage 3½ per cent bonds due 1967, offered at 102; \$15,000,000 Pacific Gas and Electric Company first and refunding mortgage 3½ per cent bonds of 1966, placed privately with insurance companies; and \$3,618,000 of preferred and common stock of Bausch and Lomb Optical Company. About \$10,000,000 of the corporate issues was for refunding. The Consolidated Edison and Consumers Power issues were both oversubscribed and went to small premiums. The municipal bond offerings, owing partly to the very limited volume, met with a satisfactory reception.

Corporate new capital issues of \$1,160,000,000 during 1937, as reported by the Commercial and Financial Chronicle, reached practically the same total as in 1936, as a fairly large volume of issues during the first and second quarters made up for the greatly reduced volume of the last two quarters. Corporate refunding issues, on the other hand, fell off rapidly after the first quarter, and for the year were only about one-third of the total during 1936, though still almost up to the average of predepression years.

Municipal bond issues totaled \$900,000,000 during the year, about 20 per cent less than the 1936 total, but the reduction was confined to refunding issues. While municipal issues, other than refunding, were reported as \$727,000,000, estimates published in the annual report of the Secretary of the Treasury on the fiscal year basis, indicate that the net outstanding municipal debt declined \$184,000,000 during the year ended June 30, 1937, apparently indicating that the retirement of municipal debt (apart from refunding) through maturities and sinking fund purchases continued to exceed new borrowing.



Monthly Average Volume of Domestic Corporate Security Issues for Refunding and for New Capital, Excluding Investment Trust Issues (Commercial and Financial Chronicle data— in millions of dollars)

Foreign Exchanges

After getting off to an uncertain start in the first few days of the new year, the dollar steadied in the foreign exchange market and remained firm for the greater part of January, but reacted again under selling pressure from abroad at the end of the month. The pound went as high as \$5.01 $\frac{3}{8}$ against the dollar on January 4, when foreigners were momentarily disturbed over the political news from Washington, but returned to \$4.99 $\frac{13}{16}$ in New York the next day and held close to that level for three weeks. Accompanying the month-end decline in the stock market, a further movement out of dollar balances again carried the pound above the \$5.00 level. The Swiss franc fluctuated in similar fashion, settling from a high of \$0.2317 $\frac{1}{2}$ on January 4 to \$0.2313 $\frac{3}{4}$ on January 5, and, after easing slightly further, rising at the end of the month to \$0.2319.

Primary interest in the foreign exchange market centered in the political and exchange crisis in the French franc which resulted in the formation of a Radical Socialist ministry headed by Premier Chautemps. The franc declined to \$0.0322 $\frac{5}{8}$ and was quoted at 154 $\frac{3}{4}$ francs to the pound sterling on January 27, as compared with quotations of \$0.0339 $\frac{3}{8}$ and 147 $\frac{1}{4}$ francs to the pound at the close of business in December, but recovered slightly near the end of January. Trading in foreign exchange was suspended on the Bourse in Paris on Friday, January 14, after the Popular Front Cabinet resigned; it was resumed on Monday and Tuesday, when the new cabinet was formed, and conducted through the remainder of the week with dealings limited to commercial transactions at the request of the Bank of France.

The franc had weakened sharply just prior to the cabinet resignation. Serious labor and political difficulties, accompanied by Socialist demands for foreign exchange control, induced a capital flight in early January, which continued at an accelerated pace until January 13. French official support being withdrawn on that day, the currency fell to \$0.0323 during the course of trading, but recovered to \$0.0329 at the close of business in New York. Short covering on the 15th and 17th brought the rate back to \$0.0337 $\frac{3}{4}$, from which it again declined in a nervous and erratic market. Forward rates weakened over the month, on balance, one-month and three-month contracts being quoted at discounts of 3 points and 10 points, respectively, at the close on December 31, when the spot rate was \$0.0339 $\frac{3}{8}$, at 13 $\frac{1}{2}$ and 21 $\frac{3}{4}$ points discount, respectively, on January 12 when the spot rate was \$0.0338 $\frac{3}{8}$, and at 5 $\frac{3}{16}$ and 13 $\frac{11}{16}$ points discount at the month end with spot francs at \$0.0328 $\frac{1}{8}$.

The capital flight from France during January induced fears for the belga, which weakened from \$0.1696 at the end of December to \$0.1688 $\frac{1}{4}$. In company with the weakness of the dollar, however, it served to bid up the guilder which reached a new post-devaluation high in January at \$0.5592, as compared with a previous high of \$0.5572 in December. The Far Eastern exchanges remained pegged in narrow markets as a result of official support. The Canadian dollar recovered from a discount of 7/64 per cent on December 31 to a discount of 1/32 per cent at the opening of trading on January 3, reached par by the eighth of the month, and went to a premium at the month end.

Gold Movement

In January the reported gold stock of the United States showed a reduction for the third successive month. The January decline amounted to \$5,000,000, bringing the total drop since October 31 to \$48,000,000. It was accompanied by a similar reduction in the inactive gold account of the Treasury which coincided with an export of \$5,000,000 of gold to France on January 3.

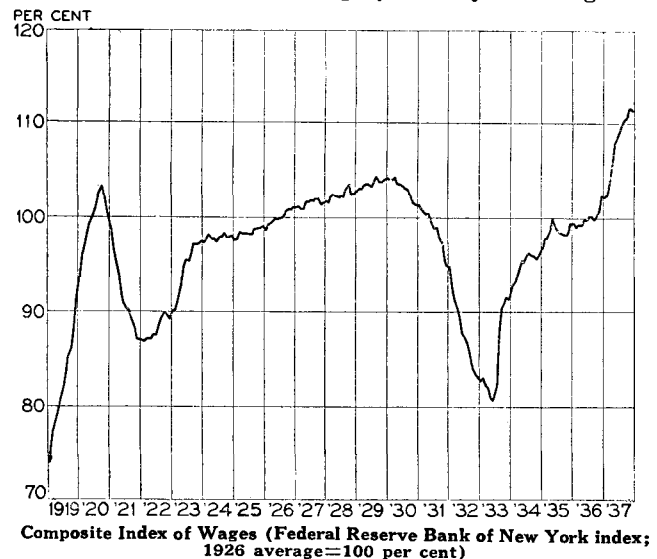
Preliminary figures of imports during January show receipts of \$700,000 of gold from India at New York and \$800,000 from Australia at the West Coast, the smallest gross inflow into the United States since September, 1934. These imports were not reflected in the reported gold stock figure, as they were offset by other transactions. The inactive gold account on January 26 totaled \$1,223,000,000.

Central Bank Rate Changes

Effective January 5 the Bank of Norway lowered its discount rate from 4 to 3 $\frac{1}{2}$ per cent. The earlier rate had been in force since December 7, 1936.

New Composite Wage Index

The accompanying diagram shows a new composite wage index recently compiled at this bank to replace the index previously published. This index is based on data on the pay received by workers employed in a number of fields, including manufacturing, railway transportation, mining, construction, public utilities, farms, retail trade, and several service lines. The old index, in the absence of current data on rates of pay or hourly earnings for important classes of workers such as factory employees, was based to a considerable extent on weekly earnings, whereas it is now possible to obtain data on average hourly earnings in most cases where data on hourly or daily rates of pay are not available. In earlier years, fluctuations in weekly earnings corresponded in a general way with fluctuations in hourly earnings, but after 1929 weekly earnings were greatly affected by changes in the number of hours worked, owing first to part-time employment during the period of rapidly declining business, then to a deliberate policy of spreading the available employment by reducing work-



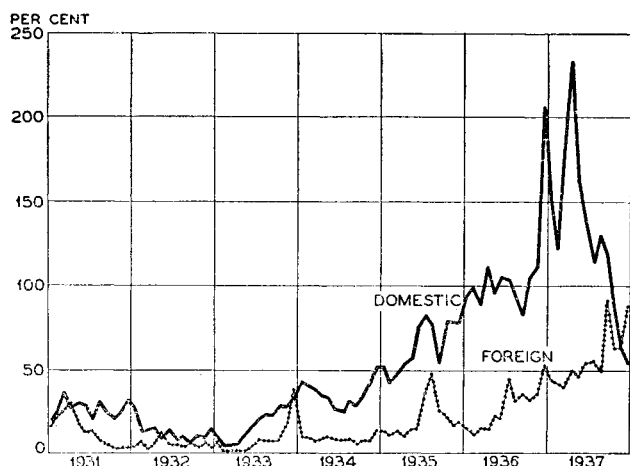
ing hours, and subsequently to a rather general reduction in regular working hours.

Rates of pay were slow in turning down with the slackening of business activity following 1929, but particularly in the latter half of 1931 and in 1932 sharp reductions were made. Subsequent increases, most pronounced in the second half of 1933 and in the first half of 1937, have more than offset the earlier decline, and the index for December, 1937 was 8 per cent higher than the general average of 1929-30.

Production and Trade

From preliminary evidence, it appears that the decline in business activity which began in September did not proceed further in January. Steel operations, which had dropped from 84 per cent of capacity in August to 25 per cent in December, are estimated to have averaged somewhat higher in January. Trade reports indicate that cotton textile mill operations also increased slightly during January, following a 32 per cent decline from August to December. However, shipments of freight by railway, after allowance for seasonal variation, compared unfavorably with the December level, electric power generation declined more than is usual, output of bituminous coal was curtailed, and automobile assemblies fell below the December average. Sales of reporting department stores throughout the United States during the first three weeks of January were about equal to those of the corresponding 1937 period, and, after allowance for the usual seasonal decline, appear to have been well maintained as compared with December sales.

Except for seasonal increases in retail trade, there was a further substantial decline in the level of business operations during December. Production of steel ingots, reduced by one-third from the November level, was at the lowest rate since October, 1934, and recessions also occurred in copper output, bituminous coal production, and textile mill operations. Automobile assemblies, as a result of disappointing sales to consumers and the well-stocked position of dealers, were reduced, and the generation of electric power, which usually reaches a seasonal peak in December, showed little change from November. However, shoe production, which ordinarily falls off in December, was not substantially changed,



Domestic and Foreign Machine Tool Orders (1926 av. for total=100 per cent; data from National Machine Tool Builders' Association)

sugar deliveries rose, contrary to the usual movement, and lead output was increased. There was also an increase in the dollar volume of machine tool orders, due to substantial foreign sales, which, as the accompanying diagram indicates, were in excess of domestic orders for the first time since December, 1933.

Department store, mail order house, and chain store sales, and the volume of check transactions throughout the country rose seasonally during December, but the movement of railway freight traffic showed somewhat more than the usual recession. Registrations of new passenger cars are estimated at 185,000 units for December, a decline of about 5,000 cars from the November figure, whereas increases occurred in 1935 and 1936.

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

	1936	1937		
	Dec.	Oct.	Nov.	Dec.
Industrial Production				
Steel	116	79	52	38
Copper	97	108	92	83
Passenger cars	110	135	79	61
Motor trucks	108	62	106	113
Bituminous coal	99	86	83	79p
Crude petroleum	91	97	94	94p
Electric power	96	94	90p	87p
Cotton consumption	123	88	79	73
Wool consumption	145r	58	45	40p
Shoes	140	86	81p	91p
Meat packing	102	86	84	87
Tobacco products	107	95	94	95
Cement	83	63	62	63
Machine tool orders*	245	143	121	128
Employment				
Employment, manufacturing, U. S.	100	100	95	90p
Employee hours, manufacturing, U. S.	96	88	81	73p
Construction				
Residential building contracts	34	25	28	19
Nonresidential building and engineering contracts	59	46	54	63
Primary Distribution				
Car loadings, merchandise and misc.	84	71	68	66
Car loadings, other	85	80	73	73
Exports	67	86	88	94p
Imports	102	82	86	82p
Distribution to Consumer				
Department store sales, U. S.	93	89	87	85
Department store sales, 2nd District	90	82	81	83
Chain grocery sales r	88	94	98	98p
Other chain store sales	98	99	93	96
Mail order house sales	108	100	90	92
New passenger car registrations	115	120r	80r	65p
Money Payments				
Bank debits, outside New York City	74	67	63	64p
Bank debits, New York City	50	40	40	43p
Velocity of demand deposits, outside New York City **	74	70	72	69
Velocity of demand deposits, New York City **	56	47	44	50
General price level#	159	158r	156	155p
Cost of living #	147	153	152	151p
Composite index of wages †	102	112	112	111p

p Preliminary. r Revised. * Not adjusted for price changes.
 ** 1919-1925 average=100 per cent. # 1913 average=100; not adjusted for trend.
 † 1926 average=100; not adjusted for trend.

Employment and Payrolls

The total number of people employed in manufacturing and nonmanufacturing industries reporting to the United States Bureau of Labor Statistics decreased by approximately 300,000 in December, following a reduction of nearly 570,000 workers in the preceding month. The engagement of about 320,000 additional people for Christmas trade in retail stores offset only in part a sharp reduction in working forces in other nonmanufac-

turing lines and in manufacturing industries. Part-time work occasioned an even greater decline in payrolls than in number of employees, the reduction for all reporting industries amounting to nearly \$16,000,000 in weekly payrolls despite a rise of \$1,800,000 in retail trade payrolls. According to the Secretary of Labor there has been no evidence of any general tendency toward reduced wage rates.

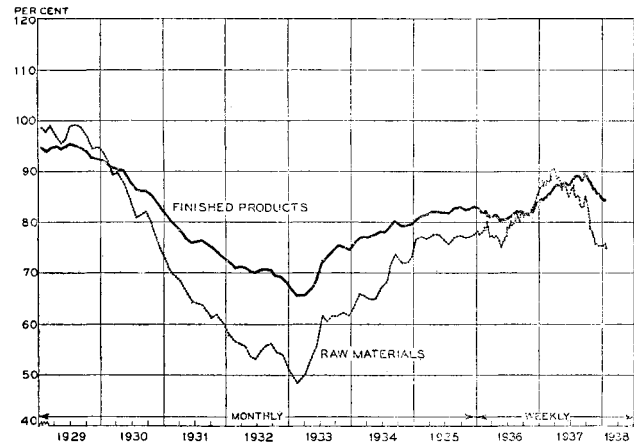
The decline in factory employment from November to December was the largest recorded for any like period since 1920, and the heaviest reductions in working forces occurred in the durable goods industries. Factory employment in December was 10 per cent below the corresponding month of 1936 and payrolls were 15 per cent lower. As the result of reduced employment, together with the shortening of the average length of the work week, this bank's index of employee-hours in manufacturing shows a net decline of 24 per cent from December, 1936 to December, 1937.

From November to December, New York State factory employment and payrolls again declined by more than the usual seasonal proportions. This bank's seasonally adjusted index of New York factory employment has declined for the past four months and that of payrolls for the past five months; in December employment was $4\frac{1}{2}$ per cent below the level of the previous December and payrolls were 6 per cent lower. All of the eleven major industrial groups reported decreases in working forces in December, the largest reductions occurring in the metals and machinery, textile, and building material industries.

Commodity Prices

The rising tendency which prevailed during December in the general average of actively traded commodity prices was continued through the early part of January. During this upward movement, Moody's index of 15 raw products rose about $5\frac{1}{2}$ per cent above the low point on November 24, though a relapse in the latter part of January canceled part of this advance. The comprehensive index of wholesale prices compiled by the Bureau of Labor Statistics, however, has not followed this movement. Since the close of September the latter index has receded with virtually no interruption, but the entire decline amounted to 8 per cent, as compared with a net decline of about 24 per cent in the basic commodity index since the middle of September.

Among the individual commodities, the cash price of Number 1 grade of dark Northern wheat at Minneapolis reached $\$1.25\frac{7}{8}$ a bushel on January 13, the highest price in three months, but closed the month at \$1.18 cents a bushel, or $4\frac{1}{2}$ cents above the closing level of December. On January 11, spot cotton established a new high since October at 8.72 cents a pound, but subsequently declined to 8.43 cents a pound, showing a net gain of 5 points from December 31. Net increases occurred also in the price of raw silk and in the average price of hogs in Chicago. The average price of steers, however, receded \$1.38 to \$8.08 a hundredweight, and cash corn, following a small gain in the early part of the month, declined to $57\frac{3}{4}$ cents a bushel, somewhat below the level prevailing at the end of December.



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

Among the metals, the price of scrap steel at Chicago increased 25 cents to \$13 a ton and lead rose 15 points to 4.90 cents a pound. The leading custom smelters advanced their price of copper to $10\frac{7}{8}$ cents a pound during the first half of January, but subsequently lowered it to 10 cents a pound, a net decrease of $\frac{1}{8}$ cent for the month as a whole, and copper producers reduced their price 1 cent during the month to 10 cents a pound. A slight decline occurred in the price of tin during January.

The accompanying diagram compares the changes in finished goods and raw material prices, as reflected in the Bureau of Labor Statistics indexes. From the end of September to January 8, the index of finished goods prices declined 6 per cent, reaching the lowest level since January, 1937, and subsequently has shown a tendency to flatten out near that level. The raw materials index declined much more rapidly through the end of November, recovered slightly in the middle of January, and since then has receded further to the lowest level since December, 1934, and 18 per cent below the April, 1937 peak.

Foreign Trade

Merchandise exports from the United States during December increased slightly from the preceding month while imports declined, both of which movements were contrary to the usual seasonal tendencies. Exports, valued at \$320,000,000, showed an increase of 39 per cent over a year previous, while imports, amounting to \$209,000,000, were 15 per cent less than a year ago—the first decrease from a year previous in imports since December, 1934.

The increase over a year ago in the total value of merchandise exports, although shared in by the majority of individual commodities, was due especially to larger shipments of agricultural products, automobiles, industrial and agricultural machinery, copper, iron and steel products, petroleum, and tobacco. On the other hand, most of the leading individual imports were smaller in volume and value than a year previous, notably agricultural products and textiles. Exceptions occurred in the case of imports of copper, crude rubber, and sugar, which were larger than in December, 1936.

For the calendar year 1937, exports totaled \$3,346,000,000 and imports \$3,084,000,000, in both cases the largest annual totals since 1930. Imports showed greater gains than exports in the first half of the year, but exports considerably outstripped imports in the last six months of 1937, so that for the year as a whole, there was an excess of exports of \$262,000,000, as compared with an export balance of \$33,000,000 in 1936.

While there was a general increase over 1936 in exports of individual commodities during 1937, shipments of machinery, automobiles, and metals accounted for more than half the total expansion in exports. Sizable gains were shown also in shipments of grains, lumber, and petroleum products. Among individual imports, the largest increases during 1937 occurred in receipts of such commodities as crude rubber, copper, tin, wool, burlap, newsprint paper, and flaxseed. Imports of wheat, coffee, crude petroleum, and raw silk were smaller in volume than in 1936.

Building

Total contract awards in December, 1937 were little changed from a year earlier as reductions in residential, commercial and factory, and public utilities construction were offset by gains in contracts for buildings for public purposes and in public works.

The total value of building and engineering contracts awarded in the 37 States covered by the F. W. Dodge Corporation reports was 9 per cent greater in 1937 than in 1936, as compared with an increase of 45 per cent from 1935 to 1936. The 1937 total was more than double that for 1933, the low year of the depression period, and represented the largest annual volume since 1931 but remained considerably below predepression levels, representing only 44 per cent of the dollar value of contracts in the peak year 1928. With the exception of public works, which declined approximately 19 per cent during the year, all of the major classifications of construction showed at least moderate increases for the year.

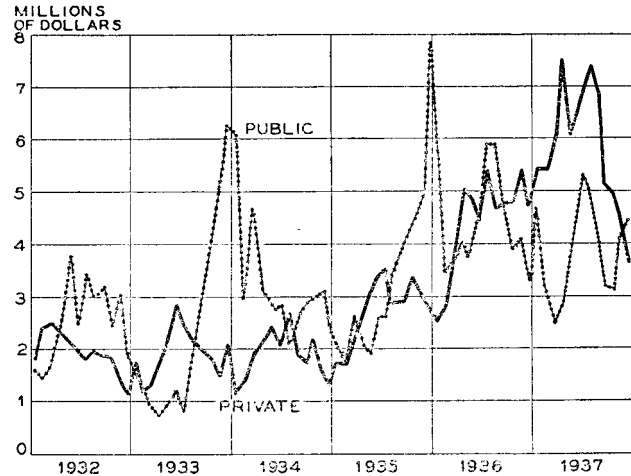
Percentage Change in Average Daily Contracts

	37 States		N. Y. and Northern N. J.	
	Dec., 1937 compared with Dec., 1936	1937 compared with 1936	Dec., 1937 compared with Dec., 1936	1937 compared with 1936
<i>Building</i>				
Residential.....	- 36	+13	-21	+ 9
Commercial and factory.....	- 22	+37	-25	+25
Public purpose*.....	+130	+ 6	+175	+19
All building.....	0	+17	+43	+15
<i>Engineering</i>				
Public works.....	+ 6	-19	+31	+ 9
Public utilities.....	- 8	+35	-90	+18
All engineering.....	+ 2	- 7	-41	+13
All construction.....	+ 1	+ 9	-14	+14

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

In the New York and Northern New Jersey area total construction awards in 1937 were 14 per cent larger than in 1936, and all of the major classifications showed greater volumes than in the preceding year. In December, however, total contracts were 14 per cent lower than in the corresponding month of 1936.

During the first half of 1937, as the accompanying diagram indicates, privately financed construction work



Daily Average Value of Publicly and Privately Financed Construction Contracts Awarded in 37 States (F. W. Dodge Corporation data)

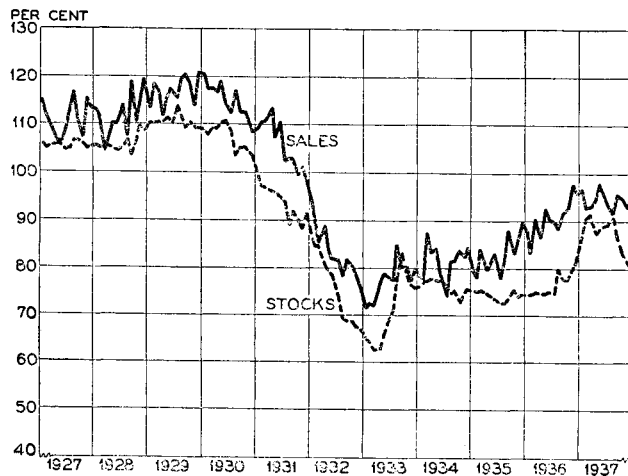
in the 37 States continued the upward trend which started in 1935. Since July, however, a sharp reduction has occurred in this class of construction, and the daily average rate of contracts for such work in December was lower than that for publicly financed construction for the first time since August, 1936. For the entire year 1937, private work recorded a gain of 31 per cent over 1936, while public work was 14 per cent lower.

Data for the first three weeks of January indicate an increase of 8 per cent over December in the daily rate of construction contract awards in the 37 States. A large increase in heavy engineering construction more than offset a seasonal decline in residential building and a larger than seasonal decrease in nonresidential building. The gain in heavy engineering contracts reflected mainly awards for a New York City water supply project and for a sewage treatment plant at Buffalo. Compared with the corresponding period of January, 1936, total contracts were 4 per cent lower; heavy engineering awards were more than double the rate of a year ago, but this gain was offset by reductions of approximately 50 per cent in residential and nonresidential building.

Department Store Trade

Total sales of the reporting department stores in this district during the first three weeks of January were 0.7 per cent below the corresponding 1937 period; after allowance for the usual seasonal decline, sales appear to have been well maintained between December and January.

For the month of December, total sales of the reporting department stores in this district were only about 1 per cent lower than in December, 1936, and on an average daily basis, the decline was smaller than in November. The Rochester, Syracuse, and Capital District stores recorded larger increases in average daily sales than in November, and the Northern New York State, Westchester and Stamford, Hudson River Valley District, and Niagara Falls department stores reported advances in the daily rate of sales following recessions in the previous month. Daily average sales of the New York and Brooklyn, Buffalo, Northern New Jersey, Bridgeport,



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

Southern New York State, and Central New York State reporting stores were below those of a year ago, but the declines were less than in November. Sales of the leading apparel stores in this district were 6.7 per cent below December, 1936, a smaller decline than in November.

For the year 1937, total sales of the reporting department stores in this district were 3.7 per cent higher than in 1936, as compared with an increase of 9.7 per cent from 1935 to 1936. Apparel store sales were only slightly higher than in 1936, following an increase of nearly 15 per cent between 1935 and 1936.

Stocks of merchandise in department stores, at retail valuation, were $\frac{1}{2}$ per cent lower at the end of December, 1937, than at the end of December, 1936, the first year-to-year reduction since March, 1936. As is indicated in the accompanying diagram, which shows indexes of sales and stocks of Second District department stores, both series adjusted for seasonal variation, stocks of merchandise declined considerably during the last four months of 1937, while sales held close to the level that has prevailed since the latter part of 1936. Collections of accounts outstanding were lower in December, 1937 than in December, 1936 in the department stores, but were somewhat higher in the apparel stores.

Locality	Percentage change from a year ago			Per cent of accounts outstanding November 30 collected in December	
	Net sales		Stock on hand end of month	1936	1937
	Dec.	Jan. to Dec.			
New York	-0.5	+3.4	-1.3	45.7	44.8
Buffalo	-3.7	+5.1	+7.4	50.6	44.6
Rochester	+4.6	+6.6	+1.7	50.7	48.5
Syracuse	+5.3	+9.3	+6.5	40.8	39.7
Northern New Jersey	-5.0	+3.1	-1.9	43.7	44.0
Bridgeport	-0.3	+7.9	-1.6	45.1	42.6
Elsewhere	+1.3	+3.4	+3.2	37.1	35.4
Northern New York State	+5.3	-1.6	.....	.....	.....
Southern New York State	-1.7	+3.2	.....	.....	.....
Central New York State	-7.4	+3.2	.....	.....	.....
Hudson River Valley District	+4.9	+4.3	.....	.....	.....
Capital District	+1.7	+3.7	.....	.....	.....
Westchester & Stamford	+0.8	+0.8	.....	.....	.....
Niagara Falls	+9.3	+7.0	.....	.....	.....
All department stores	-0.9	+3.7	-0.5	45.2	44.1
Apparel stores	-6.7	+0.1	-0.5	45.5	46.4

Wholesale Trade*

December sales of the reporting wholesale firms averaged 18.2 per cent lower than in December, 1936, the largest decrease from a year previous since March, 1933. The largest reductions in sales in more than four years were reported by the grocery, shoe, paper, diamond, and jewelry concerns, and the largest decline since July, 1934 was registered by the cotton goods firms. Sales of men's clothing and rayon and silk goods also remained far below those of a year ago, and there were moderate declines in sales of hardware, stationery, and drugs.

For the year 1937, total sales of the reporting wholesale firms averaged 3.4 per cent higher than for the year 1936, compared with an increase of 10.1 per cent from 1935 to 1936, and an advance of 5.5 per cent from 1934 to 1935.

At the end of December, the grocery, rayon and silk goods, drug, hardware, and diamond firms again reported larger stocks of merchandise on hand than a year previous, while stocks of the jewelry concerns remained below the 1936 level. Collections of accounts outstanding were slower in December than a year previous in practically all reporting lines.

* Beginning with the January, 1938 figures, the Bureau of Domestic and Foreign Commerce of the United States Department of Commerce is taking over the work formerly done by Federal Reserve Banks in collecting data and issuing reports on wholesale trade conditions.

Commodity	Percentage change December, 1937 compared with December, 1936		Per cent of accounts outstanding November 30 collected in December		Percentage change net sales year 1937 compared with year 1936
	Net sales	Stock end of month	1936	1937	
Groceries	-4.6	+11.3	95.0	97.9	+4.6
Men's clothing	-29.6	.....	52.3	37.4	+0.2
Cotton goods	-22.7	.....	49.4	46.6	-2.4
Rayon and silk goods	-34.8*	+8.9*	68.3	59.3	-1.0*
Shoes	-41.6	.....	37.2	35.5	-5.5
Drugs and drug sundries	-6.1**	+2.7**	.....	.....	+7.2**
Hardware	-6.1	+18.6	47.7	47.2	+4.4
Stationery	-3.2	.....	72.2	62.8	+4.3
Paper	-12.2	.....	58.7	51.9	+11.1
Diamonds	-43.7	+23.7	.....	.....	+37.0
Jewelry	-40.5	-7.4	25.1	18.1	+3.3
Weighted average	-18.2	.....	63.7	59.0	+3.4

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

Chain Store Trade

Total December sales of the reporting chain store systems were unchanged from the December, 1936 level, and on an average daily basis, the year-to-year comparison was somewhat more favorable than in November. Sales of the ten cent and variety chain stores were slightly higher than in December, 1936, and sales of the candy chains declined by the smallest amount in a number of months. Grocery and shoe stores continued to report moderate reductions in sales.

For the year 1937, total sales of the reporting chain stores were 2.9 per cent higher than for the year 1936, as compared with an increase of 8.4 per cent from 1935 to 1936, and an advance of 1.8 per cent from 1934 to 1935.

FEDERAL RESERVE BANK OF NEW YORK

MONTHLY REVIEW, FEBRUARY 1, 1938

Business Conditions in the United States

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

INDUSTRIAL output declined further in December and, according to preliminary reports, showed little change in the first three weeks of January. Prices of raw materials, which had declined sharply in October and November, have been maintained since that time.

PRODUCTION

Volume of industrial production declined further in December and the Board's seasonally adjusted index was at 84 per cent of the 1923-1925 average as compared with 89 in November. The decline reflected chiefly a continued sharp curtailment of activity in the durable goods industries. Steel ingot production averaged about 26 per cent of capacity, output of automobiles and plate glass was reduced considerably, and production of lumber and cement also declined. Total output of nondurable goods declined seasonally. There was a sharp decrease in output at silk mills, and cotton consumption declined further. At woolen mills and shoe factories, however, output was maintained, following a considerable period of sharp decline. Activity at sugar refineries increased further. Mineral production in December, as in other recent months, was at a high level. Output of crude petroleum and bituminous coal declined seasonally, while anthracite production increased somewhat.

In the first three weeks of January output of steel and automobiles increased somewhat from the extreme low levels reached in the latter part of December.

Value of construction contracts awarded in December continued in about the same volume as in the preceding three months. During this period there was a decline in awards for privately financed projects, reflecting in large part further reductions in residential building, while publicly financed work increased.

EMPLOYMENT

Factory employment and payrolls showed further declines between the middle of November and the middle of December, and employment at mines, on the railroads, and in the construction industry also continued to decrease. The decline in the number employed at factories was larger than in earlier months in industries producing durable goods, and was particularly marked in the steel, machinery, and automobile industries. For the nondurable goods industries as a group, the decline in December was about the same as in each of the previous three months, after allowance for seasonal changes. There was some increase in employment at shoe factories and little change at plants producing tobacco products, while most other industries in this group showed further decreases.

DISTRIBUTION

Department store sales increased in December by about the usual seasonal amount, and the Board's adjusted index was 90 per cent of the 1923-1925 average as compared with 91 per cent in November and an average of 93 per cent in the first ten months of the year. Mail order business and sales at variety stores showed somewhat more than the seasonal increase, while sales of automobiles declined substantially. Preliminary reports indicate that in the first half of January sales at department stores were at about the same level as a year ago.

Railroad freight car loadings continued to decline in December, and in that month were 18 per cent lower than the average for the first half of the year, making allowance for usual seasonal change.

COMMODITY PRICES

Wholesale prices of basic commodities, after declining sharply in the autumn, showed little change in December and the first three weeks of January. Grains, cotton, print cloths, steel scrap, and bituminous coal increased somewhat, while leather, rayon, and woodpulp prices were reduced. Prices of a wide variety of finished industrial products showed further declines, and livestock products continued to decrease sharply.

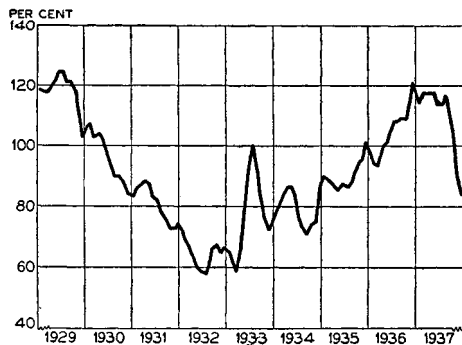
BANK CREDIT

Excess reserves of member banks increased in the four weeks ended January 19 from \$1,010,000,000 to \$1,370,000,000 and were larger than at any time since May 1. The post-holiday decline in money in circulation, which accounted for this growth of excess reserves, was larger than the increase that occurred before Christmas.

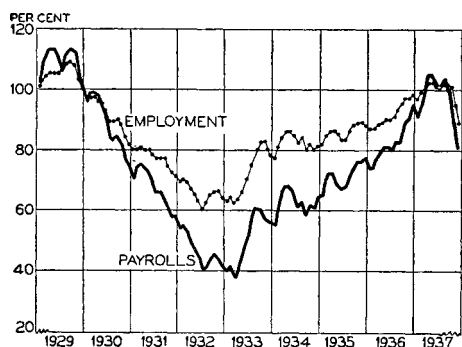
The volume of loans at reporting member banks in 101 leading cities declined sharply in the five weeks ended January 19, while their holdings of investments showed little net change. Declines occurred in loans to security brokers and dealers and in commercial loans, which decreased both in New York City and in other leading cities. Interbank balances were built up during the period, while other deposits decreased somewhat, reflecting largely the repayment of bank loans, partly offset by a return flow of currency from circulation.

MONEY RATES AND BOND YIELDS

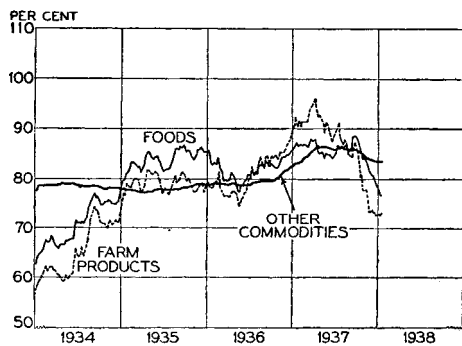
The average rate on new issues of 91 day Treasury bills continued in January at less than $\frac{1}{8}$ of 1 per cent, and yields on Treasury notes and bonds declined to new low levels for recent months. Yields on the highest grade corporate bonds also declined somewhat, while those on the lower grade railroad issues rose.



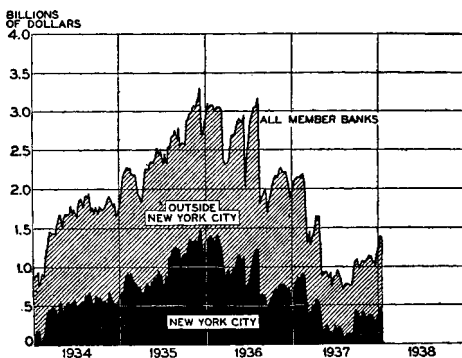
Index Number of Production of Manufactures and Minerals Combined, Adjusted for Seasonal Variation (1923-25 average=100 per cent)



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



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



Excess Reserves of Member Banks (Latest figures are for January 19)