MONTHLY REVIEW
of Credit and Business Conditions
Second Federal Reserve District

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

Money Market in February

The development in the monetary situation which attracted the most attention during February was the announcement by the Secretary of the Treasury, on February 14, of a change in the procedure to be followed by the Treasury with respect to purchases of gold. The formal statement was as follows:

"On December 22, 1936, the Secretary of the Treasury stated that, after conferring with the Board of Governors of the Federal Reserve System, he proposed to take appropriate action with respect to net additional acquisitions or releases of gold by the Treasury Department whenever it was deemed advisable and in the public interest to do so.

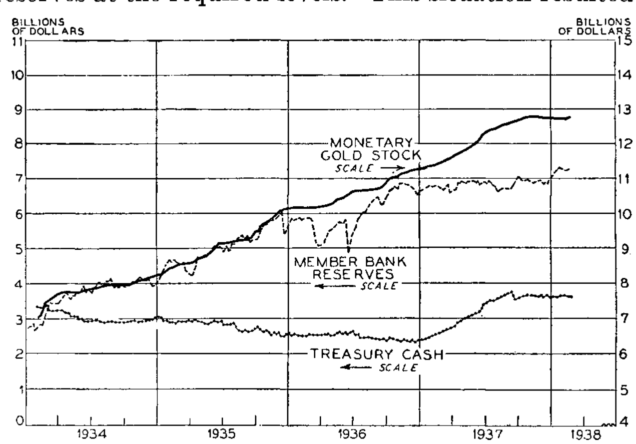
"In pursuance of that policy, the Secretary of the Treasury, after conferring with the Board of Governors of the Federal Reserve System, today announces that gold acquired by the mints and assay offices after January 1, 1938, will be included in the inactive gold account only to the extent that such acquisitions in any one quarter exceed $100,000,000. No change is being made in the procedure whereby any gold released by the mints and assay offices is taken from the inactive gold account."

Since December 24, 1936, when the "inactive gold account" was created, it had been the practice of the Treasury to carry in that account gold purchased from either domestic or foreign sources, except for such gold as was purchased and held by the Stabilization Fund; and, in general, to borrow from the market, through sales of Treasury securities, the funds required to pay for gold placed in the inactive account. The net effect of this practice was to insulate the total volume of bank reserves against changes due to Treasury purchases of gold. While the funds received by banks for imported or domestic gold sold to the Treasury added to bank reserves, payments to the Treasury for Government securities, which it sold to finance its gold purchases, reduced bank reserves by roughly the same amount. Excess reserves of banks, in fact, tended to decline as a result of gold purchases by the Treasury, under this procedure, as these transactions frequently involved increases in bank deposits, and consequent increases in reserve requirements, but produced no increase in bank reserves.

The adoption of the so-called gold "sterilization" program followed an inflow from abroad of nearly $4,000,000,000 of gold in less than three years, and an accompanying increase in the total volume of member bank reserves to a level nearly three times that which prevailed in 1928 and 1929. The program had the effect of preventing further unnecessary expansion of bank reserves and also of setting aside a supply of gold which could be drawn upon, in case of a reversal of the gold flow, without disturbing the banking position.

As the accompanying diagram shows, there was a roughly parallel increase in the monetary gold stock of this country and in member bank reserves between January, 1934, and December, 1936, although during the spring and early summer of 1936 there were rather wide fluctuations in bank reserves, caused mainly by large changes in Government deposits in the Reserve Banks. During 1937, however, the parallel movement ceased, and bank reserves remained practically unchanged. During the first nine months of the year, incoming gold, instead of adding to bank reserves, caused a rapid increase in the inactive gold account, which is included in the item of "Treasury cash", shown in the weekly statement of factors affecting member bank reserves.

Since the program was adopted, a little over a year ago, there have been radical changes in the business situation, in the banking situation, and in the flow of capital between this and other countries which had been chiefly responsible for recent large increases in our gold stock. In the early part of 1937 excess reserves of member banks were greatly reduced by increases in the percentage of reserves which the banks were required to maintain against their deposits. Banks in New York City, in addition, were subjected to heavy withdrawals of funds by banks in other parts of the country, and by August some of the New York City banks found it necessary to borrow funds, temporarily, to maintain their reserves at the required levels. This situation resulted in



Changes in the Monetary Gold Stock of the United States, in Member Bank Reserves, and in Treasury Cash (Including the inactive gold account) since January, 1934

a slight tendency toward firmness in the New York money market, which appeared again early in September, just at the time when seasonal demands for funds were increasing and when signs of a downturn in business activity were developing. At the request of the Board of Governors of the Federal Reserve System, $300,000,000 of gold was released from the inactive gold account on September 13, and the proceeds added to Government deposits in the Reserve Banks, which soon afterward were paid out by the Treasury and added to member bank reserves, thus giving further assurance of an easy money market during the autumn.

In the latter part of September and early October there was a renewed increase in the inactive gold account, as the gold inflow from abroad continued for a short time, but in the last quarter of the year a heavy outflow of short term foreign capital developed, which, although offset to some extent by payments due on the merchandise export balance of this country, resulted in some loss of gold. The sales of gold to European countries, however, were largely balanced by receipts from other sources, especially from Japan, only a small amount of gold being released from the inactive gold account.

Since the beginning of 1938 there has been a renewed rise in bank reserves, due chiefly to the return flow of currency to the banks following the holiday season, but also due, to some small extent, to payments for gold, largely of domestic origin, which was not added to the inactive gold account, but was purchased by the Stabilization Fund. Following the Secretary's statement on February 14, it was indicated that this gold, amounting to about $31,561,000, was being sold to the Treasury and corresponding deposits were being made in the gold certificate account of the Federal Reserve Banks.

In addition to this transaction there were other smaller ones, which together had the effect of making the new policy retroactive to the beginning of the year. These transactions included the release from the inactive account and sale to the Stabilization Fund of approximately $9,093,000 of gold, an amount equivalent to the gold sold to foreign accounts by the Fund between December 31 and February 14; the release from the inactive account of about $567,000 of gold acquired from miscellaneous sources during the same period; and the utilization of approximately $12,492,000 of gold in the general fund of the Treasury to reimburse the Treasury working balance in the Reserve Banks for redemptions of a corresponding amount of gold certificates, National bank notes, and Federal Reserve notes during that period, the gold having been previously set aside for that purpose.

The net effect of these various transactions, and other minor transactions, was to increase Treasury balances in the Reserve Banks on February 15 by about $22,000,000, which, when disbursed in the following week, increased member bank reserves by a corresponding amount. In accordance with the new policy, payments for gold purchased subsequently (largely from domestic sources) have also had the effect of adding gradually to the volume of bank reserves. Under this policy such purchases must aggregate $100,000,000, in any quarter, before the gold sterilization procedure will again be utilized, and as any substantial sales to foreign accounts will presumably come out of the inactive gold account, the eventual net effect of all gold transactions will be to gradually increase the volume of member bank reserves, and thus to exert an influence toward the maintenance of easy money conditions.

Excess Reserves and Money Rates

Member banks in general continued during February to be well supplied with reserves, the total volume of excess reserves for all member banks averaging around $1,400,000,000. In New York City member banks continued to hold about $500,000,000 of excess reserves.

With so large a volume of bank reserves in excess of immediate requirements, money conditions remained very easy. Yields on Government securities declined somewhat further during the month, and other open market money rates remained at the previous low levels.

Money Rates in New York

	Feb. 27, 1937	Jan. 31, 1938	Feb. 28, 1938
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	5/16	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)	1.28	1.13	1.04
Average yield on Treasury bonds (more than 8 years to maturity or call date)	2.31	2.46	2.43
Average rate on latest Treasury bill sale 273 day issue	0.39	....	....
91 day issue	....	0.10	0.09
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

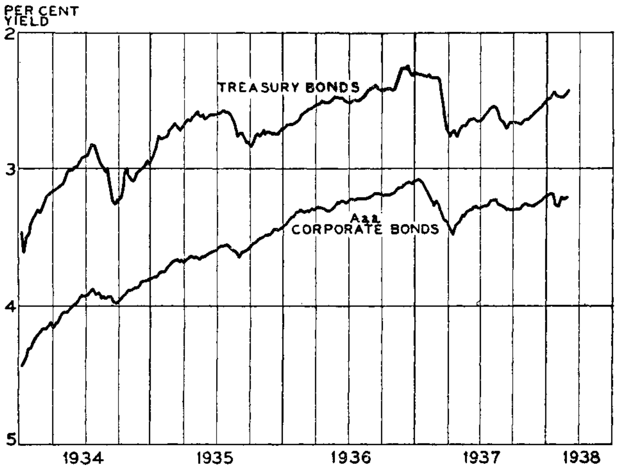
* Nominal

Member Bank Credit

The total volume of loans and investments of weekly reporting member banks declined $108,000,000 during the four weeks ended February 23. Loans to security brokers and dealers showed a further reduction of $75,000,000 during that period. Commercial loans exhibited greater stability following the substantial decline between the middle of October and the end of January, but showed a small net decline, and holdings of open market commercial paper and acceptances declined moderately. The expansion in Government security holdings of the reporting New York City banks appeared to have halted, temporarily at least, but holdings of other securities continued to increase, apparently owing in large part to purchases of State and municipal securities.

Government Securities

The Government security market was firm during most of February, although it was not quite so strong as in the first half of January. Government bond prices declined slightly in the first week of February, but advanced in the following week, and then were irregular until the closing days of the month when a fairly strong advance occurred which carried average prices up to the highest point reached at mid-January, and average yields went down to a new low point since early in March, 1937. The average yield of 2.42 per cent on bonds of more than 8 years maturity on February 26 compares with a low point for recent years of 2.22 per cent in December, 1936, and a high point reached in the weak bond market of last April of 2.78 per cent. Prices of Treasury notes, after a small recession early in February, also were strong dur-



Yields on United States Government Bonds Due or Callable in More Than 8 Years, and on High Grade Corporation Bonds (Moody's Investors Service data for corporation bonds)

ing most of the month, and on February 26 the average yield on 3 to 5 year notes declined to a new low point since December, 1936, at 1.03 per cent.

While the Government security market has, on the whole, tended to be strong during much of the time since the beginning of the year, the volume of transactions ordinarily has not been very large, and comparatively small net purchases or sales were quickly reflected in price movements. After the early part of January, transactions for the System Open Market account, designed to maintain a proper maturity distribution in the account, tended to have a stabilizing influence. These transactions involved sales of some of the longer term Government bonds from the account and their replacement with securities of shorter average maturity.

Treasury financing in the market during February was limited to four weekly issues of $50,000,000 of three months Treasury bills in replacement of maturities, but on February 25 the Treasury announced the first of a new series of Treasury bills to mature during the June tax period which will temporarily increase the weekly offering of bills to $100,000,000; the first issue in this series will be on March 2. Average rates on Treasury bills sold during February were slightly below those prevailing near the end of January.

Bills and Commercial Paper

The acceptance market has remained very quiet during the past month, as the principal accepting banks have continued to be well supplied with excess reserves and, therefore, have had no occasion to sell bills in the market to obtain additional funds. Market rates remained at the levels that have prevailed for several months.

Reports from accepting banks on the volume of bills outstanding at the end of January showed a further decline, which apparently was only partly seasonal in character. The reduction in total volume was $17,000,000, of which $11,000,000 was in import bills, which in the past have usually shown January reductions only in years of declining business activity. Export bills also showed a moderate reduction, and there was a small decline in bills drawn to finance domestic warehouse credits. Compared with the year previous the reduction in bills outstanding amounted to $61,000,000, of which $35,000,000 represented a decline in import bills.

(Millions of dollars)

Type of acceptance	Jan. 30, 1937	Dec. 31, 1937	Jan. 31, 1938
Import	141	117	106
Export	83	87	82
Domestic shipment	16	8	8
Domestic warehouse credit	68	70	67
Dollar exchange	2	2	3
Based on goods stored in or shipped between foreign countries	77	59	60
Total	387	343	326

The volume of commercial paper coming into the market during the past month was reported to have been somewhat smaller than in January, although of moderate amount. The investment demand continued active and rates remained at the previous low levels, the prevailing rate for 4 to 6 month paper continuing at 1 per cent, while choice paper of 3 month or less maturity continued to be sold readily at ¾ per cent. The volume of paper outstanding at the end of January showed an increase of $20,000,000 over the December 31 volume, apparently reflecting the usual tendency to resume borrowing early in the year, following a reduction in indebtedness at the end of December. The margin of increase over a year previous continued to narrow, however, and at the end of January amounted to approximately 23 per cent, as compared with an increase of 68 per cent at the end of last September.

Security Markets

After declining in the first few days of February to the lowest level so far this year, stock prices showed a generally upward tendency during most of the month. Average prices on February 3 were within 2 per cent of the lowest prices reached last autumn, but by the close of February 23 there had been an average rise of about 15 per cent which canceled a considerable part of the decline during the latter part of January and early February. The periods of greatest strength were between February 3 and 8 and between the 18th and 23d. During the intervening period prices fluctuated irregularly in a very dull market. On several days during that period total sales on the New York Stock Exchange were in the neighborhood of four to five hundred thousand shares. On only two days during the month—February 3 when the market was weakest, and on February 23 when one of the strongest advances occurred—did sales exceed one million shares.

At the low point on February 3, average prices of railroad stocks fell to the lowest level since April, 1933, and public utility stocks reached a new low point since May, 1935; industrial shares, however, remained moderately above the lowest levels reached last autumn. During the subsequent recovery industrial and railroad stocks showed the largest proportionate advances, but there was a moderate recovery also in public utility stocks.

Prices of medium and lower grade bonds were weak at the beginning of the month, in harmony with stocks, but advanced moderately during most of the remainder of the month. At the close of February, the average price of a representative group of Baa bonds was about

2 points higher than on February 3 and the average yield had declined from 6.44 per cent to 6.23 per cent. Prices of such securities, however, remained far below the levels of a year previous when the average yield was around 4.60 per cent.

The highest grade corporation bonds also rose somewhat during the early part of February, but after February 10 remained practically unchanged for the remainder of the month. The average yield on Aaa bonds in the latter part of February was 3.22 per cent as compared with a maximum of 3.48 per cent during the bond market slump last spring and a low point of 3.07 per cent in January, 1937. In general, the best grade industrial and public utility bonds are now close to the highest levels of recent years, while high grade railroad bonds remain substantially below the prices reached early last year.

Foreign Exchanges

The month of February saw renewed weakness of the dollar against the majority of the principal European currencies, which continued even after the political crisis in Europe occasioned by the Austrian concession to German demands and the resignation of Foreign Secretary Eden from the British Cabinet in the last week of the month. The pound sterling, the guilder, and the Swiss franc reached their highest levels since the Tripartite Declaration of September 1936 in the middle of the month, and held net gains over the month as a whole, while only the French franc showed particular weakness as a result of political developments on the Continent.

The selling of dollar balances by foreigners continued in February at a higher rate than in January, as renewed fears were felt in Europe that the additional work relief appropriation asked for by the President and the modification of the American gold sterilization policy might eventually lead to further dollar devaluation. From $5.01½ at the end of January the pound sterling rose to a high of $5.03⅞ on February 16, before President Roosevelt's denial in his press conference of February 18 of his Administration's intentions either to inflate or devalue the dollar induced a temporary reversal of the movement. Over the same period the guilder appreciated from $0.5591 to $0.5616, and the Swiss franc from $0.2319½ to $0.2330½, while the French franc remained relatively unchanged near $0.0329. The President's declaration and Mr. Eden's resignation brought about a decline in sterling to a low of $5.00¾ during the course of trading on February 21, but after the House of Commons approved the English official stand on Anglo-Italian conversations on that day, the fall in the pound came to a halt and sterling recovered to $5.01 7/16 at the day's close, and advanced to $5.02 at the month end. The Swiss franc and the guilder similarly declined from the February 16 highs to $0.2324 and $0.5593½, respectively, at the end of trading on February 21, and closed the month slightly higher.

The French franc was maintained close to 152¾ francs per pound during the first three weeks in February, resulting in New York quotations ranging between $0.0327⅜ and $0.0331⅞. Fresh weakness occurred in the currency during the last week of the month, when pressure against the franc became evident. This pressure was attributed to anticipations of further franc depreciation which had their origin in the 12,000,000,000 franc five-year armament program imposed on the French Treasury, in addition to its already heavy budget expenditures, and in the possibility that any reorientation of French foreign policy required by the developments in England and on the Continent would necessitate a realignment in the French Cabinet. The French stabilization fund apparently gave ground under the pressure of franc sales, allowing the rate to ease to 154⅛ francs per pound in London and to $0.0325⅜ in New York.

In Latin America, February brought renewed weakness to several currencies. The outstanding development was the further depreciation of the Argentine free peso, which had weakened abruptly to $0.2770 at the end of January from its previously maintained rate of $0.2940, apparently owing in considerable part to foreign withdrawals of previously acquired peso balances. While official Argentine peso buying and selling rates remained unchanged at 15 and 16 pesos to the pound sterling, respectively, the free peso declined to $0.2625 near the end of February. The Colombian and Uruguayan currencies fell similarly during the month, the former from $0.5650 per peso to $0.5465, and the latter in the free market from about $0.52 to $0.46. Quotations for the Brazilian milreis in New York continued to be nominal within a range of $0.0580 to $0.0585, as the Banco do Brasil maintained strict control of all exchange transactions, buying dollar exchange at a rate equivalent to $0.0578 while selling it at $0.0568.

New Financing

Bond financing by three utility companies made the total of corporate issues during February $89,300,000, somewhat more than in January, but about a quarter of the Commercial and Financial Chronicle's total for February, 1937. Only a small part of the total, however, was for new investment purposes. The New England Telephone and Telegraph Company is reported to have sold $20,000,000 of 3¼ per cent first mortgage 30 year bonds at par to seven life insurance companies, chiefly to pay off loans from the American Telephone and Telegraph Company. On February 2, $57,000,000 of Appalachian Electric Power Company first mortgage 4 per cent 25 year bonds were offered publicly at 98¾, along with $10,000,000 of 4½ per cent 10 year debentures, at 100½. The mortgage bonds were oversubscribed on the day of offering and since then have sold at a premium in the market. The underwriters announced that the debentures also were fully subscribed on the day following. The proceeds of these two issues were mainly for refunding. The Long Island Lighting Company sold $2,300,000 of first mortgage 4's of 1960 to insurance companies at par. During the latter part of the month no corporate issues were announced.

Preliminary data on municipal bond awards during February indicate a total of about $55,000,000, slightly more than last month or in February, 1937. The largest issue was $33,688,000 of Mississippi highway fund bonds, over half of which was for refunding. In addition to the bond issues, temporary financing was negotiated totaling about $130,000,000, consisting of $33,000,000 of Federal Intermediate Credit Bank short term debentures, of which $27,000,000 was for refunding, and over $95,000,000 of municipal borrowing for less than one year.

Gold Movement

In connection with the Treasury's announcement on February 14 of a modification of the gold sterilization program, the monetary gold stock of the United States was increased on February 15 by $24,000,000, representing the net acquisition of gold since December 31, from both foreign and domestic sources, which had not previously been added to the gold stock. The inactive gold account (which forms part of the monetary gold stock) was reduced to $1,213,600,000 on February 15 by the release from the account of $9,700,000, most of which was sold to the Stabilization Fund to offset sales to foreign accounts by the Fund since the first of the year, and was further reduced by $13,000,000 on February 26 to offset sales to foreign accounts subsequent to February 15.

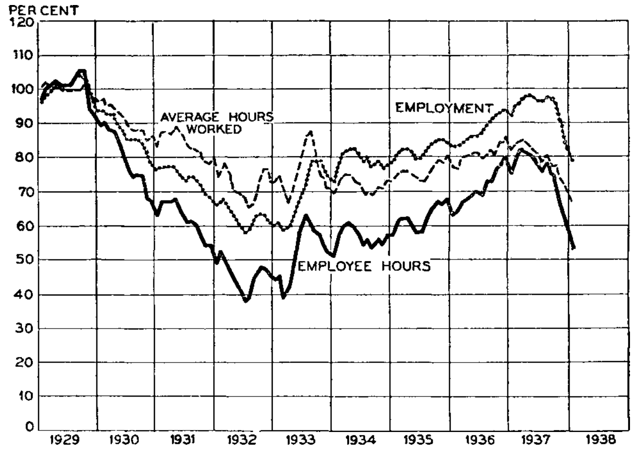
Preliminary figures of imports during February show receipts of $1,100,000 from Australia and $275,000 from India. As a result of the above transactions and receipts of $7,000,000 from foreign and domestic sources since February 15, there was a net increase of approximately $18,000,000 in the monetary gold stock during February.

Employment and Payrolls

In January the total number of workers engaged in nonagricultural pursuits in the United States decreased by 1,300,000 persons according to an estimate of the Bureau of Labor Statistics. The reduction since October has amounted to 2,800,000 workers and of this decline the Bureau estimates that about 800,000 may be attributed to normal seasonal slackening in activity. With the single exception of the leather and leather products group, where employment rose owing to greater activity in shoe plants, all of the major manufacturing and nonmanufacturing industries reported curtailment of employment in January and in most cases the reductions were of more than the usual seasonal proportions.

Declines from December to January amounting to 7 per cent in factory employment and 12 per cent in payrolls were the largest recorded for any similar period since 1921. The greater reductions in payrolls than in working forces reflected more extensive part-time employment. As in the preceding month, the heaviest decreases in working forces occurred in the durable goods industries, such as the automobile industry, the steel mills, railroad equipment building and repair shops, the electrical apparatus industry, foundries and machine shops, and numerous others. Factory employment in January was 14½ per cent below a year ago and payrolls were 22 per cent lower.

The accompanying diagram shows two measures of employment in manufacturing industries, one based upon actual number of workers employed and the other upon total employee-hours worked. A third line shows an index of average hours worked. In earlier issues of this Review attention has been called to the fact that in periods of depression part-time schedules, adopted at least in part to spread the available employment, tend to increase the disparity between these two measures of employment. This tendency has been apparent in the period from August through January when the number of workers employed declined 19 per cent, while total employee-hours were reduced 32 per cent. The former index for January was at the lowest level since January, 1935, and the index of employee-hours was at a new low point since September, 1934.



Number of Factory Workers Employed, Average Hours Worked, and Aggregate Number of Hours Worked (Index numbers based on U. S. Bureau of Labor Statistics and National Industrial Conference Board data; 1929 average = 100 per cent)

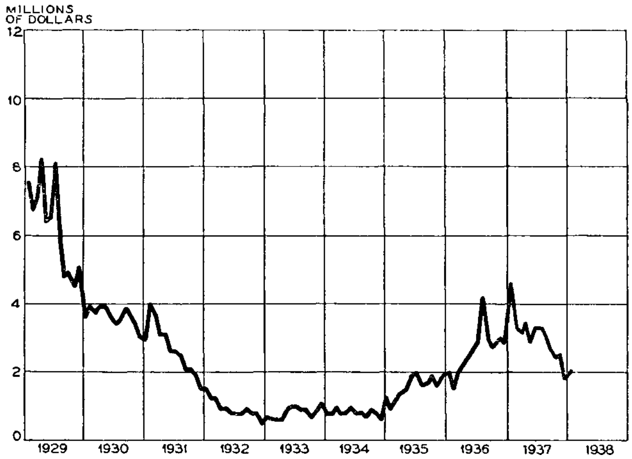
In New York State, employment and payrolls in reporting factories also continued to decrease more than seasonally in January. Since July this bank's adjusted index of employment has declined 12 per cent and the payroll index 18 per cent. Compared with January, 1937 the curtailment of working forces in New York factories has amounted to 10 per cent and payrolls have been reduced 12 per cent. Working forces were reduced in all of the major industrial groups, the largest losses occurring in the textile, metals and machinery, and building material industries.

Building

During January the daily rate of construction contract awards in the 37 States covered by the F. W. Dodge Corporation was little changed from the December level. Largely as a result of the placing of contracts for two large projects in the New York and Northern New Jersey district, there was an increase of 64 per cent in the heavy engineering classification, but there was a 33 per cent reduction in awards for buildings. Compared with a year ago total building and engineering contracts were 23 per cent lower; a decline of nearly 50 per cent in residential, factory, and other building contracts was only partially offset by a gain of 44 per cent in heavy engineering work.

The accompanying diagram indicates the declining tendency which has marked residential building in recent months. After three years of comparative inactivity there was a definite rise in contract awards for residential building in 1935 and 1936. The subsequent decline, mainly in the second half of 1937, has approximately canceled that part of the recovery which occurred in 1936.

January construction figures for the New York and Northern New Jersey area were augmented by two unusually large contract awards—for a water supply pro-



Daily Average Value of Residential Building Contracts Awarded in 37 States, Adjusted for Seasonal Variation (F. W. Dodge Corporation data)

ject for New York City and a sewage treatment plant at Buffalo. Commercial and industrial contracts were also larger than in December, but awards for all other major types of building were considerably lower. Compared with a year before, total contracts were 32 per cent higher, but the gain was accounted for by heavy engineering projects just mentioned and lower volumes were reported for each of the other principal classifications. Residential building in this district in January was 64 per cent below that of a year ago.

During the first three weeks of February, construction contracts awarded in the 37 States declined 29 per cent from the January level. A considerable reduction in heavy engineering construction more than offset a seasonal advance in residential building, while nonresidential building showed no change although a gain is customary at this time of year. Compared with the corresponding period of 1937, total contracts were 34 per cent lower, as a result of heavy declines of 45 per cent in engineering awards, 37 per cent in residential building, and 20 per cent in nonresidential building.

Commodity Prices

Influenced by a variety of factors, including crop control legislation and changes in weather conditions, prices of actively traded commodities moved irregularly during February, and the general level, as measured by Moody's index of 15 commodities, closed the month little changed from the end of January.

Pronounced gains were shown during the month in cotton prices, connected to some extent with the enactment of the new Agricultural Adjustment Act. Spot cotton rose to 9.37 cents a pound on February 23, and although it receded somewhat subsequently to 9.27 cents at the end of the month, it showed a net gain of 75 points for the month. Similar movements occurred in cotton futures. At the end of February the spot quotation for cotton was nearly 1½ cents, or about 19 per cent, above the November, 1937 low.

Owing at least in part to an increase in the demand for raw silk and evidence of larger consumption, raw silk prices increased rather substantially during February, the spot quotation rising 10 cents to $1.67½ a pound, or 15 cents above the level at the first of the year. The average price of hogs advanced 66 cents to $9.09 a hundredweight during the month, and the average price of steers moved 67 cents higher to $8.42 a hundredweight, thus canceling about 40 per cent of the previous month's loss.

Wheat prices tended somewhat higher during the early part of the month, reflecting largely reports of insufficient subsoil moisture and a recurrence of dust storms in the Southwestern winter wheat area. However, following reports of a break in the drought, prices declined on subsequent days and the cash quotation for the Number 1 grade of Northern wheat at Minneapolis closed February at $1.13⅞ a bushel, compared with $1.17¾ at the end of January. Losses for the month were shown also in the prices of wool and hides.

A downward tendency was apparent in the prices of a number of important metals during the past month. Scrap steel at Chicago declined 75 cents to $12.25 a ton, and at Pittsburgh the price receded 25 cents to $14.00 a ton. Lead was reduced 40 points to 4½ cents a pound and zinc ¼ cent to 4¾ cents. The price of tin, on the other hand, rose 1⅝ cents to 42⅛ cents a pound.

The table below indicates some of the major fluctuations during the past two years in the spot quotations of a number of actively traded commodities and their position at the end of February. At the low point of the decline which began after March, 1937 and continued through December, all of the products listed had lost most or all of the advances that had occurred in 1936 and early 1937, and some of the farm products, reflecting larger production in 1937, had fallen below the 1936 lows. It will be seen that all the products, with the exception of steers and zinc, participated in the upward movement occurring during December and early January. Only three of these commodities, cotton, hogs, and raw silk, have since surpassed their January highs. All the other items included in the table closed February below the highest levels of January.

Spot Quotations for	1936 Low	1937 March-April, High	1937 Nov.-Dec., Low	1938 Jan., High	1938 End of Feb.
Farm Products					
Wheat, No. 1 Northern, Minneapolis (dollars a bu.)	1.09¼	1.69⅜	1.04⅜	1.25⅞	1.13⅞
Corn, No. 3 yellow, Chicago (dollars a bu.)	.58	1.38¾	.52	.61⅛	.56¼
Cotton, middling, N. Y. (cents a lb.)	11.20	15.25	7.79	8.72	9.27
Hogs, average price, Chicago (dollars a hundredweight)	9.24	10.40	7.58	8.56	9.09
Steers, average price, Chicago (dollars a hundredweight)	7.58	12.46	9.38	9.00	8.42
Metals					
Scrap steel, No. 1 heavy melting, Pittsburgh (dollars a ton)	13.25	23.75	13.25	14.25	14.00
Copper, domestic electrolytic, Conn. Valley (cents a lb.)	9¼	17	10–11	10⅞–11	10
Lead, New York (cents a lb.)	4.52½	7.77½	4.75	4.90	4.50
Zinc, prime Western, E. St. Louis (cents a lb.)	4.75	7.50	5.00	5.00	4.75
Tin, Straits, N. Y. (cents a lb.)	40.35	67.00	40.75	43.00	42.12½
Miscellaneous					
Silk, raw, double extra, N. Y. (dollars a lb.)	1.44½	2.07½	1.52½	1.61½	1.67½
Rubber, crude, plantation, N. Y. (cents a lb.)	13.56¼	27.12½	14.12½	15.37½	14.87½

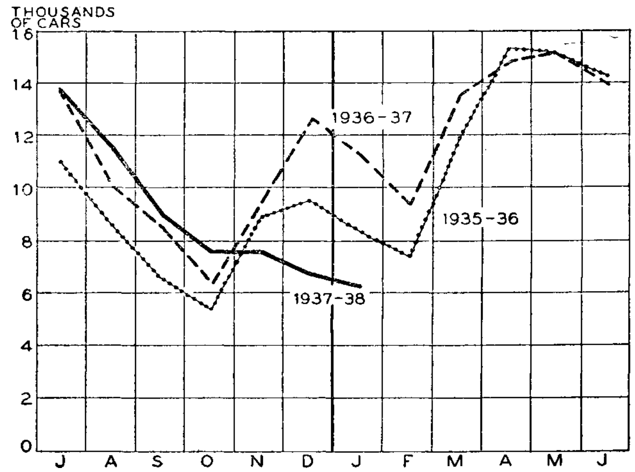
Production and Trade

Judging from preliminary information, there appears to have been no very substantial further decline in the general level of production and trade during February. Steel ingot output, which averaged 29 per cent of capacity in January, apparently was slightly higher in February, though the gain was smaller than usual. Steel mill activity has leveled out following a recovery of about 10 points in the operating ratio from the low point at the end of December. An increase in the volume of sales of cotton textiles was reported in the latter part of February, accompanying the enactment of the new farm bill and higher prices for cotton, and mill activity appears to have increased slightly during the month. Automobile plants maintained output somewhat below the January rate. Railway loadings of merchandise and miscellaneous freight were little changed during the first three weeks of February, but loadings of bulk commodities were reduced contraseasonally. Bituminous coal production declined about as usual, while electric power generation decreased slightly more than in most other years. Department store sales in this district fell off somewhat between January and February after seasonal adjustment.

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

	1937			1938
	Jan.	Nov.	Dec.	Jan.
Industrial Production				
Steel	107	52	38	38
Copper	97	92	83	77*p*
Passenger cars	97*r*	79	61	47
Motor trucks	107*r*	106	113	78
Bituminous coal	87	83	79*p*	64*p*
Crude petroleum	94	94	95	96*p*
Electric power	94	90	87*p*	86*p*
Cotton consumption	114	79	73	71
Wool consumption	124	45	46	43*p*
Shoes	143*r*	82	85*p*	90*p*
Meat packing	87	84	87	89
Tobacco products	93	94	95	87
Cement	75	62	63	50
Machine tool orders*	200	121	128	115
Employment				
Employment, manufacturing, U. S.	100	95	90	86*p*
Employee hours, manufacturing, U. S.	92*r*	81	73	69*p*
Construction				
Residential building contracts	51	28	19	21
Nonresidential building and engineering contracts	76	54	63	65
Primary Distribution				
Car loadings, merchandise and misc. *r*	89	81	77	74
Car loadings, other *r*	84	78	78	72
Exports *r*	69	88	94	93*p*
Imports *r*	92	85	86	64*p*
Distribution to Consumer				
Department store sales, U. S.	95	86*r*	84*r*	86
Department store sales, 2nd District	89	80*r*	82*r*	81
Chain grocery sales	99	98	98	100*p*
Other chain store sales	98	93	95*r*	93*p*
Mail order house sales	100	91*r*	94*r*	87*p*
New passenger car registrations	117	80	62	63*p*
Money Payments				
Bank debits, outside New York City	68	63	64	58*p*
Bank debits, New York City	42	40	43	35*p*
Velocity of demand deposits, outside New York City**	72	72	69	65
Velocity of demand deposits, New York City**	50	44	50	42
General price level#	161	156	155	155*p*
Cost of living#	148	152	151	150*p*
Composite index of wages†	102	112	111	111*p*

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.



New Passenger Automobile Registrations in the United States (Data for Wisconsin omitted since July, 1937, because unavailable)

During January, there was some evidence of a slackening in the decline in production and trade which began in the fall. Following sharp decreases in four successive months, steel ingot production rose seasonally in January and cotton consumption by textile mills also increased, although somewhat less than the average for the time of year. Mill consumption of silk and shoe production increased more than is usual, but the rate of automobile assemblies dropped 31 per cent from December to January, to about half the rate of January, 1937; output of nonferrous metals and bituminous coal declined; and there was a contraseasonal reduction in the manufacture of tobacco products. Following a slight upturn in December, machine tool orders resumed the declining tendency in evidence since September.

The seasonally adjusted indexes of railway freight car loadings and of the volume of check transactions throughout the country were lower in January than in the preceding month, and mail order house sales declined somewhat more than usual. On the other hand, department store sales and registrations of new passenger cars compared favorably with December after seasonal adjustment.

The daily average rate of registrations of new passenger cars since July, 1935 is shown in the accompanying diagram. From July through October of 1937, registrations declined as in 1935 and 1936, but remained above each of those years. Following the showing of new models, however, registrations failed to pick up as in the two preceding seasons, and in December were only a little over half those of a year previous and substantially lower than in December, 1935. A decrease roughly corresponding to those of the two preceding years was indicated by preliminary data for January.

Foreign Trade

Exports of merchandise from the United States during January were valued at $289,000,000, or 30 per cent more than a year previous, while imports, amounting to $171,000,000, were nearly 30 per cent smaller than in the corresponding month of 1937. Both exports and imports declined materially from the December levels, but the decrease in exports appears to have been largely seasonal, while the reduction in imports was greater than the usual

January movement. The excess of exports over imports of $118,000,000 was the largest for any month since October, 1929. Recent data indicate an increased foreign demand for American grain, and a well sustained demand for American cotton and for some industrial products, notably machinery.

Data for the calendar year 1937 indicate a rather general increase over 1936 in the foreign trade of this country, although the percentages of increase in value for the leading commodities varied widely, as the accompanying table shows. The principal individual commodity exports tended to show larger increases on the whole than the leading imports, due especially to the notable expansion of exports in the last six months of the year. The movements of major imports during 1937 reflected a combination of active demand for foreign raw materials in the first half of the year, and a reduced need for these products in the latter half of the year, accompanying the domestic industrial recession.

	Value calendar year 1937 (In millions of dollars)	Percentage change calendar year 1937 compared with 1936
Exports		
Wheat (incl. flour)	61	+216.5
Iron and steel mill products	300	+168.1
Copper, incl. ore and manufactures	94	+ 84.5
Industrial machinery	241	+ 51.7
Automobiles, incl. trucks and passenger cars	235	+ 48.9
Crude petroleum	96	+ 45.8
Electrical machinery	113	+ 23.3
Cotton, unmanufactured	369	+ 2.1
Tobacco, unmanufactured	135	— 2.0
Imports		
Wool and mohair	96	+ 81.0
Rubber, crude	248	+ 55.9
Tin (bars, blocks, pigs)	104	+ 38.2
Newsprint paper and wood pulp	221	+ 23.0
Coffee	151	+ 12.4
Cane sugar	166	+ 5.3
Silk, raw	107	+ 4.1

Exports in 1937 of wheat and wheat flour, which had shrunk in recent years to negligible proportions, increased to more than three times the 1936 value, as a result of a larger crop last year in the United States and smaller production elsewhere. Shipments of iron and steel mill products and copper showed exceptionally large increases in value over the previous year, which may have been partially accounted for by the extensive armament programs of a number of foreign countries. Exports of crude petroleum and of such manufactured products as industrial and electrical machinery and automobiles also showed notable gains over 1936. For the year as a whole, foreign demands for cotton from this country were not materially larger than in the preceding year; increases in purchases by Great Britain and other European countries slightly more than offset a large decrease in Japanese takings during the latter half of the year. Exports of unmanufactured tobacco from the United States in 1937 were somewhat smaller in value than in 1936, due to the lower average price of American tobacco.

Among the major imports, receipts of wool and mohair during the year 1937 showed the largest relative gain over 1936, although heavy declines occurred in the latter half of the year in quantity as well as value. Receipts of crude rubber, our largest single import in value in 1937, were greater in value and also considerably greater in quantity than in the year previous. Likewise, imports of tin and newsprint paper and woodpulp showed substantial gains in value over 1936, due both to quantity and price increases. Receipts of raw silk and coffee, on the other hand, were larger in value, although smaller in quantity than in 1936. Sugar imports showed a moderate increase in value, despite a decline in the average price of sugar.

Department Store Trade

Total sales of the reporting department stores in this district during the first three weeks of February were 4.6 per cent below the corresponding period of a year ago; sales continued at about the same rate as in January instead of showing the usual seasonal increase.

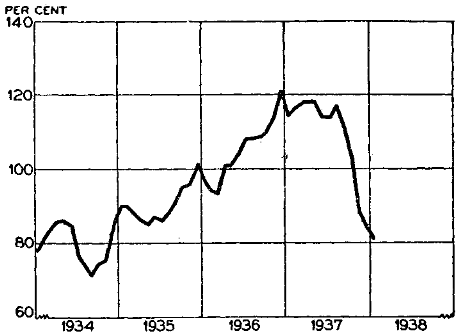
In January, total sales of the reporting department stores in this district were 3.5 per cent lower than in January, 1937, a somewhat larger decline than in December.

Stocks of merchandise in department stores, at retail valuation, were 4.1 per cent lower at the end of January, 1938, than at the end of January, 1937, but were still somewhat above the level that prevailed for some time before the rapid increase started in the latter half of 1936. Collections of accounts outstanding were slightly lower in January, 1938, than in January, 1937.

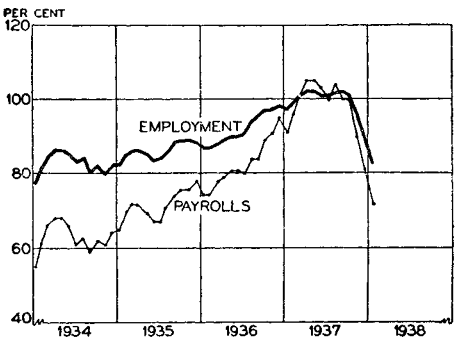
Locality	Percentage change January, 1938 compared with January, 1937		Per cent of accounts outstanding December 31 collected in January	
	Net sales	Stock on hand end of month	1937	1938
New York	— 3.6	— 4.8	55.1	53.8
Buffalo	—10.9	+ 3.5	47.9	41.4
Rochester	+ 2.7	+ 1.7	62.9	69.8
Syracuse	— 0.5	— 1.1	40.3	38.7
Northern New Jersey	— 5.6	— 7.3	43.4	43.3
Bridgeport	— 1.5	— 3.4	42.6	38.2
Elsewhere	+ 1.7	+ 3.0	36.7	35.0
Northern New York State	— 1.9	......	....	....
Southern New York State	— 4.0	......	....	....
Central New York State	— 7.9	......	....	....
Hudson River Valley District	+ 1.0	......	....	....
Capital District	— 1.3	......	....	....
Westchester & Stamford	+ 9.5	......	....	....
Niagara Falls	+23.1	......	....	....
All department stores	— 3.5	— 4.1	50.9	49.9
Apparel stores	— 5.7	— 3.5	50.2	49.5

Classification	Net sales percentage change January, 1938 compared with January, 1937	Stock on hand percentage change January 31, 1938 compared with January 31, 1937
Toys and sporting goods	+42.3	— 6.8
Musical instruments and radio	+ 5.2	—14.5
Hosiery	+ 4.5	— 3.1
Linens and handkerchiefs	+ 2.8	+ 4.8
Cotton goods	+ 0.4	—15.2
Women's ready-to-wear accessories	0	— 4.3
Men's furnishings	— 3.2	— 3.0
Women's and Misses' ready-to-wear	— 3.9	— 4.1
Silverware and jewelry	— 4.3	+ 5.8
Men's and Boys' wear	— 7.4	+ 6.4
Toilet articles and drugs	— 7.5	—10.2
Shoes	— 9.0	+ 2.5
Home furnishings	— 9.0	— 9.4
Woolen goods	—10.4	— 8.7
Silks and velvets	—12.7	— 6.1
Books and stationery	—13.7	—13.4
Luggage and other leather goods	—13.8	— 2.9
Furniture	—17.3	— 6.4
Miscellaneous	— 4.3	— 3.5

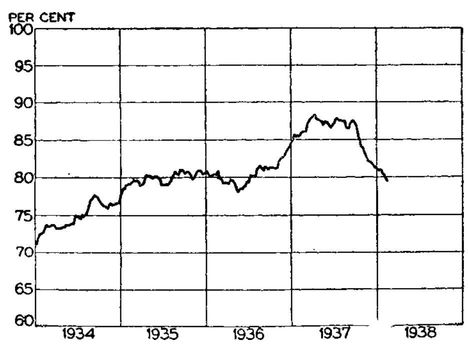
FEDERAL RESERVE BANK OF NEW YORK
MONTHLY REVIEW, MARCH 1, 1938



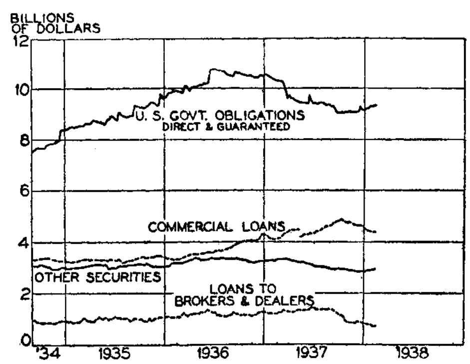
Index Number of Production of Manufactures and Minerals Combined, Adjusted for Seasonal Variation (1923-25 average=100 per cent)



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 = 100 per cent)



Member Banks in 101 Leading Cities (Latest figures are for February 16)

Business Conditions in the United States

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

THE decline in business activity, which had been rapid during the last quarter of 1937, continued in January but at a slower rate.

Production

Volume of industrial production, as measured by the Board's seasonally adjusted index, was at 81 per cent of the 1923-1925 average in January as compared with 84 per cent in December. Output of durable goods continued to decline, reflecting chiefly considerable decreases in production of automobiles and plate glass and a further decline in output of lumber. Steel ingot production increased somewhat, the output for January averaging 30 per cent of capacity. In the first three weeks of February, activity at steel mills showed little change at about 31 per cent of capacity, while production of automobiles was at a lower rate than in January.

In the textile industries, activity at silk and rayon mills in January showed a sharp rise from the low levels reached in December. At cotton mills, however, there was less than the usual seasonal increase and output of woolen products continued in small volume. Shoe production, which also had been at a low rate in December, increased considerably in January, and activity at meat packing establishments rose somewhat further. Output of tobacco products remained at a high level, while sugar meltings declined. At mines, bituminous coal production was considerably smaller than in December, and there was also a reduction in output of nonferrous metals. Petroleum production continued at the high level of other recent months.

Value of construction contracts awarded in January was smaller than in December and somewhat below the level maintained during the last four months of 1937, according to figures of the F. W. Dodge Corporation. Contracts awarded for public projects increased somewhat further, while awards for private work continued to decline, reflecting a further decrease in residential building and a sharp reduction in awards for factory construction. In the first half of February awards for private projects were at about the same rate as in January, while those for public work showed a sharp decline.

Employment

Factory employment and payrolls declined substantially further between the middle of December and the middle of January. In the durable goods industries, decreases in employment were general and were particularly large at factories producing automobiles, steel, and machinery. Employment in nondurable goods industries showed a somewhat smaller decline than in previous months. There was some increase in the number employed at shoe factories and little change in the food industries as a group, but in other nondurable goods industries employment continued to decrease. Employment on the railroads, in mining, and in the construction industry also declined.

Distribution

Department stores sales showed a seasonal decrease from December to January, while sales at variety stores and mail order sales declined by more than the usual seasonal amount.

Freight car loadings continued to decline in January, reflecting principally a reduction in shipments of coal.

Commodity Prices

Prices of steel scrap and nonferrous metals declined from the middle of January to the third week of February, following some advance in December and the early part of January. There were further decreases in some other basic commodities, while prices of cotton and silk advanced. Livestock products continued downward and a number of finished industrial products declined further. Prices of pig iron and most finished steel products have been reaffirmed for second quarter delivery.

Bank Credit

During the first three weeks of February excess reserves of member banks were little changed from the level of $1,400,000,000 reached at the end of January following the post-holiday return of currency from circulation.

During January there were substantial reductions in commercial loans and brokers loans and moderate increases in investments at reporting member banks in 101 leading cities. In the first three weeks of February loans and investments of these banks showed little change.

Money Rates

Rates on Treasury bills and yields on Treasury notes and bonds continued in February at the low levels reached in the latter part of January.