MONTHLY REVIEW
of Credit and Business Conditions
Second Federal Reserve District

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

Money Market in May

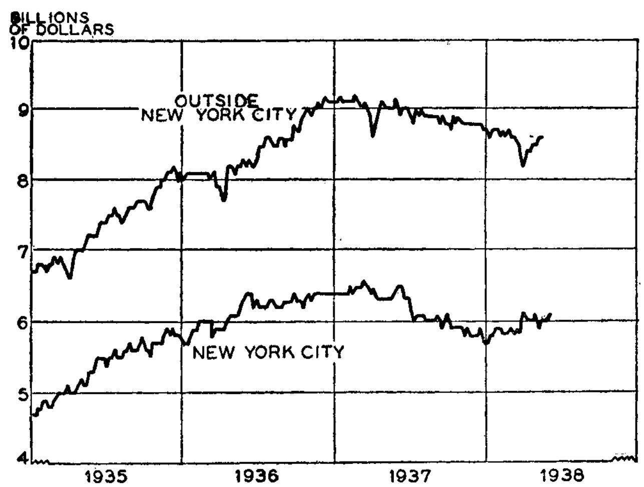
Reports from member banks in New York City and other principal cities throughout the country during recent weeks have indicated that the banks are experiencing some difficulty in maintaining the volume of their earning assets, notwithstanding the large volume of funds which they have available for employment. In New York City the reporting member banks showed a reduction of approximately $200,000,000 in total loans and investments during the four weeks ended May 25, following an increase of about $130,000,000 during April. In other principal cities, reports for the first three weeks of May indicated a further small reduction in earning assets following a gradual but persistent decline since last summer.

Repayment of commercial and industrial borrowing has continued in New York and elsewhere, and further repayments appear to be in prospect. Security issues have been announced, some of the proceeds of which are to be used to retire indebtedness at the banks, and, except in years when there is a decided upward trend in business borrowing, a gradual seasonal decline frequently occurs between the end of May and the end of July. For all reporting member banks, total commercial, industrial, and agricultural loans showed a reduction of slightly over $100,000,000 in the three weeks ended May 18, which brought the total decline from the high point of last October close to $800,000,000, or about 16 per cent. Loans to security brokers and dealers, after some increase in the latter part of April, turned downward again in May, and on May 25 were close to the lowest point of the past five years.

Despite the reduction in the supply of Government securities in the market, which has resulted from the weekly retirement of $50,000,000 of Treasury bills since the latter part of April, the volume of Government securities held by the weekly reporting member banks has shown only a small reduction, indicating that the banks, in their effort to maintain the volume of their earning assets, have been buying Government securities from other investors. Holdings of Government guaranteed securities have increased fairly steadily since the end of March partly reflecting the new issue of $200,000,000 Commodity Credit Corporation notes on May 2. Investments in guaranteed issues by the principal New York City banks increased about $155,000,000 between March 30 and May 25, and in other reporting banks there was an increase between March 30 and May 18 of $77,000,000. Holdings of other securities, however, declined $173,000,000 in New York City, apparently largely because of redemptions of temporary State and municipal borrowing. Altogether the investments of the reporting banks have shown an expansion not quite sufficient to offset the continued decline in the volume of their loans.

Notwithstanding some net reduction in total loans and investments, the deposits of reporting member banks have increased substantially since the end of March. Adjusted demand deposits in reporting banks in 100 principal cities outside New York increased $426,000,000 between March 30 and May 18, apparently chiefly as a result of Government expenditures. The New York City banks showed no increase in their demand deposits, exclusive of deposits held for other banks, but banks in other parts of the country appear to have transferred a considerable part of the funds they have received to their balances with New York City correspondents, and the amount of such balances rose nearly $400,000,000 during this period. As the accompanying diagram shows, the increase in demand deposits since March, outside New York City, has largely offset the rapid decline that occurred during March, while demand deposits, other than interbank deposits, in New York City remained at approximately the same level that has prevailed during the past two months. In general, there has been no net shrinkage in demand deposits since the latter part of December.

Excess reserves of member banks also showed some further increase during the past month, as a result of Government disbursements, and on May 25 amounted to approximately $2,630,000,000 as compared with $1,560,-



Adjusted Demand Deposits in Reporting Member Banks in New York City and in 100 Other Cities

000,000 at the end of March, about $1,000,000,000 just before Christmas, and a low point of about $700,000,000 early last August. New York City member banks held $1,185,000,000 of excess reserves on May 25, an increase of approximately $450,000,000 since March, a large part of which is attributable to transfers of idle funds to New York by banks in other parts of the country.

Reflecting the increase in volume of idle reserves in member banks and the diminishing supply of Treasury bills in the market, yields on such securities have declined almost to the vanishing point. The average yields on Treasury notes of 3 to 5 years' maturity also have declined further during the past month to a level well below the low point of December, 1936. Other short term money rates, however, have remained unchanged.

Money Rates in New York

	May 28, 1937	Apr. 30, 1938	May 28, 1938
Stock Exchange call loans	1	1	1
Stock Exchange 90 day loans	*1¼	*1¼	*1¼
Prime commercial paper—4 to 6 months	1	¾–1	¾–1
Bills—90 day unindorsed	½	7/16	7/16
Customers' rates on commercial loans (Average rate of leading banks at middle of month)	1.67	1.63	1.63
Average yield on Treasury notes (3-5 years)	1.46	0.82	0.71
Average yield on Treasury bonds (more than 8 years to maturity or call date)	2.62	2.32	2.30
Average rate on latest Treasury bill sale			
91 day issue	....	0.04	0.03
115 day issue	0.43	....	....
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

Government Securities

Reflecting some decline in investment demand relative to the very active buying of the previous month, prices of United States Government securities were much steadier in May than in April, though on balance some further rise in quotations did occur. In the first three weeks of the month, the average price of Treasury bonds of more than 8 year term to call date or maturity moved irregularly upward about ⅜ of a point, and the yield on these issues was reduced slightly further to an average of 2.28 per cent, which compares with 2.50 per cent on April 13, and with the record low of 2.22 per cent reached in December, 1936. During the latter part of May, an easier tendency developed in Treasury bond prices, as a result of which about one half of the advance of the preceding part of the month was canceled. Treasury note prices also advanced further during May, but, as in the case of Treasury bonds, the rise was considerably less than in the previous month. The average yield on these obligations, for maturities of 3 to 5 years, declined gradually further to a new low of 0.71 per cent, as compared with 1.05 per cent on April 13 and 0.82 per cent on April 30.

Further slight declines occurred during May in the rates at which the weekly issues of Treasury bills were sold on tender. For the issue dated May 25 the average rate was at a new record low of 0.025 per cent, which compares with 0.037 per cent on the issue dated April 27 and 0.146 per cent on the issue of April 13. Each of the four weeks' new issues was in the amount of $50,000,000, and as the maturities on corresponding dates were each in the amount of $100,000,000, a further reduction of $200,000,000 in the outstanding volume of Treasury bills was effected during May, thus expediting to that extent the disbursement of the proceeds of the $1,400,000,000 of gold released by the Treasury in April.

Commercial Paper and Bills

Average grade prime 4 to 6 month commercial paper continued to be sold in the open market at both ¾ and 1 per cent during May. The investment demand by banks for commercial paper showed no abatement while on the other hand borrowings by merchants and others using the market continued to diminish, and consequently the dealers had less paper to offer. A total of $271,400,000 of paper was outstanding through reporting commercial paper houses at the end of April, a decline of about 9 per cent from the March total, which is the largest March to April reduction since 1933. In comparison with a year ago, the April, 1938 figure shows a 5 per cent decrease, the first decline in two years.

In the bill market, the active investment demand also remained largely unfilled during May, because of the small amount of new bills coming into dealers' hands. A further $14,000,000 decline in April reduced the total amount of bankers acceptances outstanding at the end of the month to $279,000,000, the smallest amount since 1916. Declines occurred during April in most types of acceptances, but about 70 per cent of the decline from a year ago was accounted for by reductions in import bills.

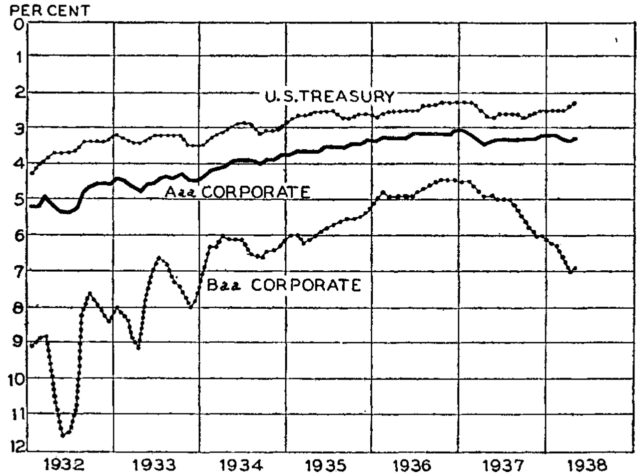
(Millions of dollars)

Type of acceptance	April 30, 1937	Mar. 31, 1938	April 30, 1938
Import	167	91	86
Export	83	75	71
Domestic shipment	12	8	9
Domestic warehouse credit	56	55	51
Dollar exchange	1	2	1
Based on goods stored in or shipped between foreign countries	76	62	61
Total	395	293	279

Security Markets

Trading activity in stocks diminished to the smallest volume of recent years during May, and prices fluctuated with no definite tendency discernible. The net result of the month's movements was a slight net decline in the general level of share prices, as some advance in public utility stocks was exceeded by declines in industrial and railroad shares. The first week of the month witnessed a recovery of the decline during the latter part of April, and on May 9 both the railroad and public utility stock averages exceeded the levels to which these classes of stocks had advanced on April 16, while industrial stocks remained somewhat below. In the succeeding weeks of May, however, prices of all classes of stocks moved irregularly lower. Toward the close of May, the general average of stock prices was 11 per cent above the end of March low, reflecting the retention of a part of the advance of the first half of April; public utility shares showed a net recovery of 18 per cent, industrials 10 per cent, and railroads 7 per cent.

Prices of both high grade and lower grade corporation bonds continued to advance in the first part of May, but



Average Yields on United States Treasury, and on Aaa and Baa Corporation Bonds. Scale inverted to show price movements (Average yield on Treasury bonds is for issues over 8 year term to call date or maturity; corporate bond yields are Moody's Investors Service data)

after the 12th, lower grade issues declined, while high grade issues advanced for about a week longer and then also showed a slight decline in the remaining part of the month.

Average prices of high grade bonds during the past month and a half have advanced about 2 points, but nevertheless remain some 2½ points below the highest point reached in January of this year, because of declines in railroad issues. The industrial and public utility Aaa groups have risen somewhat above the highest levels reached in January, 1937, which in general marked the high point for many years in the best grade corporation bonds, but the railroad group remains some 13 points lower.

At the highest point reached in May, corporate bonds of the Baa grade, taken in the aggregate, showed a rise of 10 points from the end of March low, there having been a recovery of 12 points in public utility issues, 9 points in railroads, and 7 points in industrials. The extent of this recovery was reduced in the second half of May most materially in the case of the railroad bonds, which dropped 6 points, cutting the net recovery in this class to about 3 points. Industrial and public utility bonds of Baa grade receded 2 points on the average.

New Financing

Corporate security flotations for new capital purposes amounted to about $32,000,000 during May, or more than twice the volume of April, but less than the average of $36,000,000 for the first quarter of 1938 and far less than the average for the first half of 1937. The May total was composed chiefly of $15,000,000 of $4.50 preferred stock of General Foods Corporation, sold at 101, which was promptly oversubscribed, and $10,000,000 of New York and Queens Electric Light and Power Company mortgage 3¼'s of 1968, sold privately to insurance companies.

Corporate refunding operations amounted to $26,650,000, a considerable decrease from recent months. The only large refunding operation was the offering of $16,500,000 San Antonio Public Service Company first mortgage 4's of 1963 and $2,500,000 of 4 per cent serial notes of 1939-48 of the same company, both of which were entirely sold on the day of issue. Two million dollars of Fall River Electric Light and Power Company first mortgage 3⅛'s of 1968, for refunding, were awarded by the company to investment bankers at the very low interest cost of 3.0182 per cent and reoffered to the public at 104, to yield about 2.92 per cent.

Owing chiefly to the award of $40,000,000 New York City 3¼'s of 1939-78, municipal issues in May, amounting to about $80,000,000, were greater than in April and were above the average of the first quarter. The New York City bonds, together with $10,000,000 of the City's corporate stock which was taken by the Sinking Fund, were awarded at an interest cost to the city of 3.1309 per cent, as compared with an interest cost of 2.9496 per cent on $43,000,000 of the City's 1-30 year bonds awarded on March 1. The distribution of the new bond issue was considered to have been excellent. No other single municipal award during the month exceeded $5,000,000.

May financing also included the sale of about $29,000,000 of 2 per cent five year Federal National Mortgage Association notes which are not directly guaranteed by the United States Government. This Association was recently organized with $10,000,000 of capital stock and $1,000,000 surplus subscribed by the Reconstruction Finance Corporation under the terms of the National Housing Act. Associations of this kind are authorized to purchase, establish a market for, and to make loans secured by, first mortgages insured under the provisions of certain sections of the National Housing Act.

The favorable market for high grade new security issues during the past month led to the registration or preparation of a number of large refunding issues as well as a $100,000,000 issue of debentures of United States Steel Corporation for new capital and for the repayment of bank loans.

Foreign Exchanges

A further French currency devaluation, another Belgian political and exchange crisis, and another European war scare made May an eventful month in the foreign exchange markets as liquid funds were moved about Europe and between New York and European capitals in large volume. Over the month as a whole, largely as a result of the situation on the Czechoslovak-German border, the dollar gained substantially against foreign currencies, the pound sterling for example being quoted at $4.95 at the end of May compared with $4.98 11/16 on April 30.

The depreciation of the French franc from a level close to 160 francs to the pound sterling to 179, with a pledge that it would not be permitted to fall below that level, was undertaken on May 5 as a deliberate step in the monetary policy of the Daladier Government, but only after the French Stabilization Fund was reported to have practically exhausted its foreign exchange assets. The reduction in the valuation of the franc was highly successful in its immediate response, and the French monetary authorities were obliged during the first ten days after the new rate was established to buy gold and foreign exchange, estimated by the press to have amounted to nearly 20,000,000,000 francs, in order to supply the demand for francs. British, Continental, and American markets experienced heavy outflows of funds during this period, as short positions in francs were closed out, as commercial working balances in France were rebuilt, and as small capitalists sold gold coin and foreign bank notes for francs. The liquid funds thus restored to the Paris money market induced some rise in the price of rentes, a substantial fall in short term rates, and a reduction in the discount rate of the Bank of France.

The depreciation of the French franc to a level well below the value of the original Belgian unit came at the time of a Belgian budget crisis, which culminated in the resignation of the Janson cabinet and the formation of a new coalition ministry headed by Premier Spaak. The French depreciation together with the political crisis led to the withdrawal of foreign funds from Brussels, heavy speculation against the belga, and a flight of domestic capital into foreign funds and especially into gold in London. The National Bank of Belgium, after losing one-sixth of its reserves of gold and foreign exchange in a single week, raised its discount rate on May 10 and restricted the discounting privilege in an effort to reduce the pressure against the exchange. In the closing days of the month, the belga recovered above the gold export point, after having been below the gold shipment point most of the month, and one half of the advance in the central bank's discount rate was canceled.

The flow of funds to France had slowed down by the middle of the month when Premier Mussolini's speech in Genoa indicated an unfavorable prospect for the success of French-Italian negotiations pointing toward a settlement of national differences. During the following week, the movement of funds to Paris gradually came to a halt, and after a series of Czechoslovak-German border incidents in the latter part of the month, there started a general movement of funds from Europe to New York which sent European currencies lower against the dollar.

Sterling had reached a high of \$4.99⅞ on May 4, when rumors were circulated in Europe for a short time that the dollar might be depreciated along with the French franc, but eased to \$4.96¾ on May 20. With the mobilization of the Czechoslovak army on Saturday, May 21, the pound declined more abruptly, as did the guilder and the Swiss franc, and occasioned some gold arbitrage shipments from London to New York. The French franc declined from 177⅝ to 178¾ francs per pound. In New York the guilder closed at \$0.5515, the Swiss franc at \$0.2278, and the French franc at \$0.0276 15/16, compared with \$0.5566, \$0.2300½, and \$0.0306 9/16, respectively, on May 2.

Among the non-European rates, the Canadian dollar, the Chinese yuan, and the Mexican peso all showed declines during May.

Central Bank Rate Changes

In connection with the establishment of a minimum franc-sterling exchange rate and following a reflux of funds to France, the Bank of France lowered its discount rate from 3 to 2½ per cent, effective May 13. The higher rate had been in force since November 13, 1937. The discount rate of the National Bank of Belgium, after ruling at 2 per cent since May 16, 1935, was raised to 4 per cent on May 10, in response to an outflow of funds stimulated in part by the lowering of the exchange value of the French franc. Effective May 30, it was lowered to 3 per cent.

On May 5 the discount rate of the National Bank of Rumania was reduced from 4½ to 3½ per cent. The 4½ per cent rate had been in force since December 15, 1934.

Gold Movements

Toward the end of May the dollar equivalent of the London market price of gold dropped for a short time to approximately the gold shipping point to New York, and the engagement of \$11,700,000 of gold for export to the United States was reported, only part of which, however, arrived in New York by the close of the month.

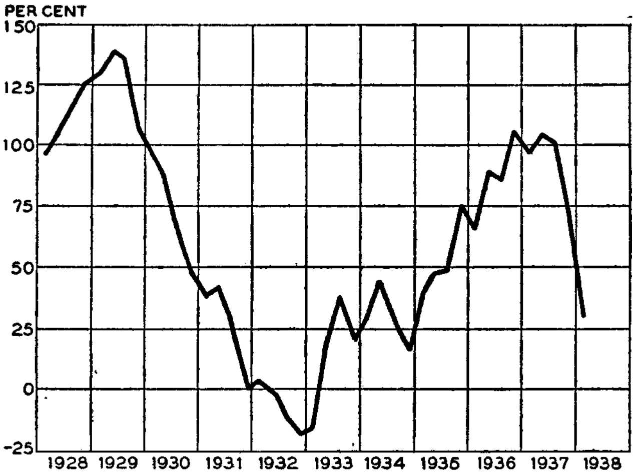
Preliminary figures of May imports of gold affecting the gold stock of the United States show receipts at New York of \$2,900,000 from England, \$890,000 from Belgium, and \$500,000 from Peru, and on the West Coast of \$22,100,000 from Japan, \$2,400,000 from Australia, and \$100,000 from Hong Kong. In addition, there was a gain to the gold stock through the release of \$2,700,000 from foreign earmarked holdings and through receipts of newly mined and scrap gold. As a result of all these transactions the gold stock was increased by approximately \$50,000,000 during May.

Business Profits

Reflecting the materially lower level of general business activity in the first quarter of 1938, which in the case of industrial production represented a decline of 32 per cent from the first quarter of 1937, aggregate net profits of 306 industrial and mercantile companies dropped 66 per cent between the first quarters of 1937 and 1938. The extent of the decline in profits since the third quarter of last year is indicated in the accompanying diagram, which is based on figures for a smaller number of companies whose quarterly earnings have been published for the past ten years. It would appear that the recent decline in profits has been somewhat more rapid than in the 1929-32 period, and that profits in the first quarter of this year reached the lowest level since 1934, being not materially different from the first quarter of that year.

Of the 306 companies whose figures are included in the table, 114, or 37 per cent of the total, reported deficits in the first quarter of 1938, as compared with only 25 companies, or 8 per cent of the total, in 1937. Another 146 companies, or 48 per cent of the total, reported smaller profits in 1938 than in 1937. The remaining 46 companies included, or 15 per cent of the total, reported larger earnings than in the first quarter of last year.

All groups of companies, with the exception of the aviation and bakery products groups, showed reductions in net profits between the first quarter of last year and this year. In the case of the aviation group the increased profits apparently reflected to a considerable extent a large increase in orders for military planes. Earnings of companies engaged in producing bakery products were aided by the decline in prices of the principal raw



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

materials consumed. At the other extreme, four groups—automobile parts and accessories (excluding tires), clothing and textile, coal and coke, and steel companies—had deficits in the aggregate this year, whereas in 1937 all of these groups operated profitably. The declines in the net profits of some groups of companies engaged in producing consumers' goods or in service lines, such as miscellaneous food products, tobacco (cigars), petroleum products, and motion pictures and amusements, were relatively moderate. Most of the other groups of companies reported net profits ranging from 49 to 96 per cent below last year, the heaviest declines, aside from those groups that showed deficits, occurring in the building supply, automobile, and railroad equipment groups.

Class I railroads, as a group, reported a deficit after fixed charges for the quarter amounting to $106,000,000, which is larger than any of the quarterly deficits which

(Net profits in millions of dollars)

Corporation group	No. of cos.	First quarter 1934	1935	1936	1937	1938
Automobiles	10	29.2	38.3	65.9	59.0	5.3
Automobile parts and accessories (excl. tires)	30	8.4	15.8	14.5	19.5	— 1.5
Aviation	5	— 0.5	— 0.1	0.7	1.3	2.3
Bakery products	7	4.3	3.5	4.6	3.8	4.5
Building supplies	15	0.6	2.5	3.5	7.8	0.3
Chemicals and drugs	30	29.7	29.6	36.9	44.9	22.6
Clothing and textiles	7	0.9	0.9	0.7	1.1	— 0.8
Coal and coke	9	2.2	2.0	1.7	1.3	— 0.2
Electrical equipment	11	4.1	10.1	13.8	21.8	10.1
Food products—misc	26	26.9	21.5	23.9	25.2	22.3
Household equipment	10	4.4	4.2	4.4	9.4	2.7
Machinery and tools	16	0.5	2.3	4.9	10.2	4.6
Metals and mining (excl. coal and coke)	21	13.6	13.7	20.3	36.4	18.7
Motion pictures and amusements	4	3.5	3.1	4.9	8.0	5.9
Office equipment	5	2.8	3.0	3.4	4.9	4.0
Paper and paper products	7	— 0.7	— 0.4	0.4	3.3	0.6
Petroleum	24	10.2	9.7	20.7	36.8	28.1
Printing and publishing	5	0.7	1.8	2.0	2.0	0.4
Railroad equipment	9	— 0.9	0.4	2.2	9.9	0.8
Steel	19	— 7.0	7.8	11.4	65.3	— 4.5
Tobacco (cigars)	6	0.5	0.5	0.6	0.6	0.4
Miscellaneous	30	2.4	2.0	5.1	8.2	2.0
Total, 22 groups	306	135.8	172.2	246.5	380.7	128.6
Class I Railroads, net income	141	— 15.3	— 43.4	— 27.6	15.4	—106.3
Other public utilities (except telephone companies) net income	61	51.5	50.3	53.7	59.6	50.6

— Deficit

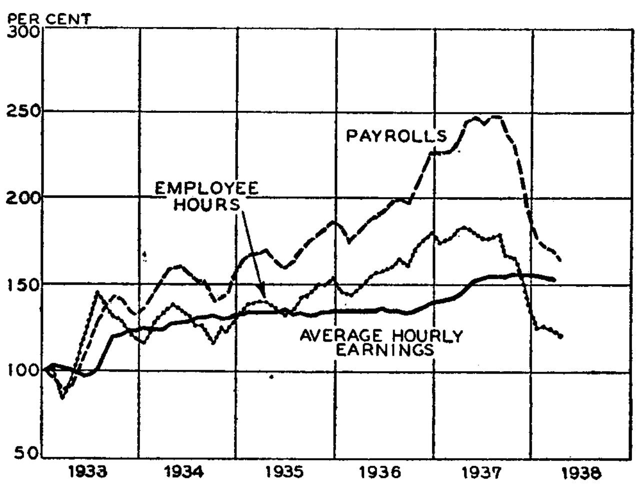
occurred at the bottom of the depression in 1932 or 1933. In the first quarter of last year, net income of $15,000,000 was earned by the Class I railroads, the first time since 1930 that fixed charges were fully covered in the initial quarter. Net income of 61 public utilities, other than telephone companies, was 15 per cent smaller than in the first quarter of last year, and only slightly above the low point of 1935.

Employment and Payrolls

According to the Secretary of Labor, an increase occurred in total nonagricultural employment during April for the first time since last September. The gain, however, is estimated at 70,000 workers, as compared with the usual April increase of about 400,000. The number of employed workers is estimated to have been 2,500,000 lower than a year ago and 3,000,000 below the level of early last autumn. A reduction in factory employment was exceeded by net gains in nonmanufacturing industries, owing largely to an increase of 160,000 workers in retail trade to handle the Easter and spring business and seasonal enlargement of forces engaged in construction.

In United States factories, the reduction in number of workers amounted to nearly 3 per cent, and there was also a decrease in weekly wage disbursements amounting to 3 per cent, both after allowance for usual seasonal movements. Declines occurred in the durable and nondurable goods groups of industries, but the former continued to show the more severe losses. In New York State factories more than the usual seasonal declines occurred in employment and payrolls between March and April and decreases of 1 per cent and 2 per cent, respectively, in this bank's seasonally adjusted indexes resulted. With the exception of seasonal gains in plants producing construction materials, reductions in employment were general.

Since last August factory payrolls in the United States have declined by approximately one-third—one of the sharpest declines for any period of similar length in the nineteen years covered by the United States Bureau of Labor Statistics reports. As the accompanying diagram



Indexes of Payrolls and Employee Hours, Adjusted for Seasonal Variation, and Average Hourly Earnings in United States Factories (Bureau of Labor Statistics data; January 1933=100 per cent)

indicates, the decline in payrolls has roughly paralleled the reduction in the number of employee-hours worked. The number of men on factory payrolls was reduced by approximately 1,900,000, or 22 per cent, between August, 1937 and April of this year, and average working time of employed workers was reduced 13 per cent, from about 39 hours per week to 34. Average hourly earnings, also shown in the diagram, reached a peak in November and have declined but slightly since then, despite the severity of the reductions in production, employment, and profits; they remain higher than a year ago and more than 50 per cent above the level of January, 1933.

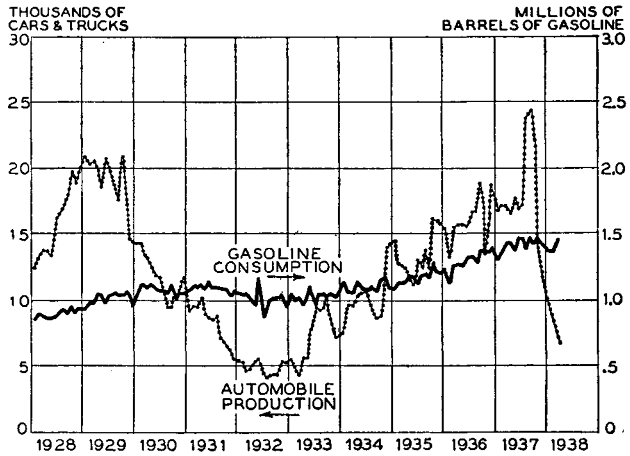
Production and Trade

According to the preliminary evidence, business operations continued on a generally restricted basis during May. Weekly estimates of steel ingot production moved downward from 31 to 28 per cent of capacity as the month progressed; in April the operating ratio averaged 33½ per cent of capacity and in May of last year 89 per cent. Automobile assemblies tended to be curtailed, reflecting a continued low level of sales to consumers, and bituminous coal mining was below the April average during the first three weeks of May. Cotton textile mill operations continued restricted, in keeping with their limited volume of sales. Production of electric power was little changed, and the usual gain in railway freight traffic failed to appear. Department store sales appear to have declined further, on the basis of figures for the first three weeks of May.

Some contraction in business is indicated by statistical data for April. Steel output was little changed, lead production increased, and silk mills were more active, but there were reductions in output of copper and zinc, in cotton and wool mill operations, in electric power production, and in tobacco manufacturing. Furthermore, automobile assemblies increased less than in most other years, and machine tool orders declined from March to April, in the latter month amounting to approximately one-third of the record high figure of April, 1937.

After adjustment for the later date of Easter and other seasonal factors, department store sales in the United States and in this district were somewhat lower in April than in March, and a decline was also shown in sales of grocery chains. Mail order house sales and sales of chain stores other than grocery, however, were higher than in March, even after adjustment for seasonal factors. Railway loadings of merchandise and miscellaneous freight during April were lower than in March, whereas an advance is customary. Shipments of bulk commodities declined about as usual.

The accompanying diagram compares fluctuations since 1928 in automobile production and gasoline consumption, the one measuring the manufacture of cars and trucks, the other indicating the extent to which automobiles are in use. Both series are adjusted for seasonal variation. Early last autumn automobile production dropped off much less sharply than in the two preceding years, but since that time output has steadily lost ground in relationship to the expected seasonal movement, and during the first four months of this year less than half as many



Average Daily Production of Passenger Cars and Trucks, and Gasoline Consumption, Adjusted for Seasonal Variation

cars were produced as in the same period of 1937. In contrast to this movement, gasoline consumption, which on a seasonally adjusted basis reached a record high level in September of last year, has been maintained with little change since that time.

(Adjusted for seasonal variations, for estimated long term trend, and where necessary for price changes)

	1937	1938		
	Apr.	Feb.	Mar.	Apr.
Industrial Production				
Steel	104	38	39	39
Copper	101	70	65	62*p*
Passenger cars	95	46	42	38
Motor trucks	108	72	55	48
Bituminous coal	77	64	64	66*p*
Crude petroleum	98	92	93	92*p*
Electric power	94	85	84*p*	82*p*
Cotton consumption	115	73	75	70
Wool consumption	132*r*	56	52	47*p*
Shoes	124	99	103*p*	102*p*
Meat packing	86	82	84	79
Tobacco products	91	88	92	88
Cement	71	46	53	
Machine tool orders*	251	70	88	78
Employment				
Employment, manufacturing, U. S.	103	84	83	80*p*
Employee hours, manufacturing, U. S. *r*	97	67	66	64*p*
Construction				
Residential building contracts	37	23	28	24
Nonresidential building and engineering contracts	51	37	45	45
Primary Distribution				
Car loadings, merchandise and misc.	91*r*	74	73	68
Car loadings, other	96	64	63	63
Exports	85	90	87	90*p*
Imports	104	64	66	61*p*
Distribution to Consumer				
Department store sales, U. S.	90	83	81*r*	81
Department store sales, 2nd District *r*	88	78	79*r*	78
Chain grocery sales	94	100	102	99*p*
Other chain store sales	91	89	86	91*p*
Mail order house sales	110	87	90*r*	91
New passenger car registrations	96	59*r*	49*p*	47*p*
Money Payments				
Bank debits, outside New York City	67	57	59	56*p*
Bank debits, New York City	36*r*	31	35	35*p*
Velocity of demand deposits, outside New York City**	69	62	62	61
Velocity of demand deposits, New York City**	45	36	38	40
General price level#	162	154	152	152*p*
Cost of living#	151	148	149	149*p*
Composite index of wages†	106	111	110	110*p*

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

Building

The sizable upturn that occurred in March in construction contracts in the New York and Northern New Jersey area was not maintained in April; in fact, total contract awards on a daily average basis declined 24 per cent. All of the major construction classifications showed lower daily rates than in March, the largest reduction occurring in residential contracts. Compared with April of last year total contracts in this area were 31 per cent lower, and the only class of construction to show an increase was buildings designed for various public purposes, as the following table indicates.

(Percentage Change in Average Daily Contracts)

	N.Y. and Northern N.J.		37 States	
	April, 1938 compared with March, 1938	April, 1938 compared with April, 1937	April, 1938 compared with March, 1938	April, 1938 compared with April, 1937
Building				
Residential	—31	—43	— 3	—31
Commercial and industrial	—22	—60	—12	—48
Public purpose*	—25	+12	0	+33
All building	—28	—35	— 4	—24
Engineering				
Public works	— 3	— 1	+22	+27
Public utilities	—19	—70	— 9	—53
All engineering	— 5	—15	+17	+ 2
All construction	—24	—31	+ 2	—18

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

For the 37 States covered by the complete F. W. Dodge Corporation report, the average daily rate of contract awards was little changed between March and April. Contracts for public works projects increased 22 per cent, but the other major construction groupings were either lowered or unchanged from the preceding month. The total of all contracts awarded in April was 18 per cent lower than the aggregate for the corresponding month of last year, although contracts for public works projects and for buildings for public purposes recorded rather substantial gains.

Figures for the first three weeks of May indicate the maintenance of construction contracts at about the same level as in March and April. A reduction in nonresidential building contracts approximately offset increases in residential and heavy engineering awards. Compared with the corresponding period of last year, total contracts in the first three weeks of May were 12 per cent lower. Residential work was 3 per cent higher, heavy engineering construction 7 per cent higher, and nonresidential building 39 per cent lower.

Foreign Trade

During April this country's merchandise exports, valued at $274,000,000, continued to be slightly above the level of a year previous, while imports, valued at $160,000,000, were 44 per cent smaller. The April excess of exports over imports of $114,000,000 increased the export balance for the first ten months of the fiscal year beginning July, 1937 to $843,000,000, which contrasts with a net import balance of $88,000,000 in the corresponding period of 1936-1937, and is equal to the export balance for the entire fiscal year 1929-1930, which was the largest in the last nine years.

The balance of merchandise trade of this country by economic groups in April shows wide changes from a year ago, as is indicated in the accompanying table. In the case of agricultural products, the excess of imports over exports was reduced from $106,000,000 in April, 1937 to $13,000,000 in April, 1938. Exports of agricultural products were 30 per cent larger in value than a year previous, while imports of this type of commodities were reduced by about one-half. Comparatively heavy grain exports continued to be the principal element in the increased agricultural shipments, while receipts of foreign grain were negligible. Exports of unmanufactured tobacco and raw cotton were both larger in quantity than a year previous, and the value of tobacco exports increased about 30 per cent, but the value of cotton shipments was 30 per cent less, due to lower prices.

Meanwhile, the excess of nonagricultural exports over imports was increased from $89,000,000 in April, 1937 to $129,000,000 in April, 1938, chiefly as a result of reduced imports. Exports of nonagricultural crude materials this year exceeded imports by $3,600,000, in contrast to an import excess of $8,000,000 for these products a year previous, and other major groups of commodities either showed increases in the export balances or decreases in the import balances. Aircraft shipments were more than double the April, 1937 value and foreign demand for American agricultural and industrial machinery continued to be comparatively large, while exports of iron and steel products, automobiles of all types, and electrical machinery were smaller. Nearly all of the leading individual imports participated in the decline in the aggregate value of imports.

(In thousands of dollars; + indicates excess of exports, — indicates excess of imports)

	Agricultural products		Nonagricultural products	
	April, 1937	April, 1938	April, 1937	April, 1938
Crude materials	— 29,725	— 2,879	— 8,125	+ 3,561
Crude foodstuffs	— 34,463	+ 5,401	— 928	— 898
Manufactured foodstuffs	— 33,319	—11,790	— 5,532	— 3,651
Semimanufactures	— 8,206	— 3,978	+ 9,907	+ 21,698
Finished manufactures	— 39	+ 239	+94,158	+108,295
All groups	—105,752	—13,008	+89,479	+129,006

Commodity Prices

Due chiefly to declines in the last half of May, prices of most of the actively traded commodities showed further net losses for the month, and as a result Moody's Investors Service index of 15 raw products receded about 3½ per cent to the lowest level since April, 1934. At the end of May this index stood about 42 per cent below the peak reached in April, 1937; however, the Bureau of Labor Statistics index, which includes quotations for semifinished and finished products in addition to raw material prices has declined only about 11 per cent since April, 1937.

Reports of damage by black rust together with frost and excessive rains in the Southwestern wheat area resulted in some increase in wheat prices in the early part of May, but a generally optimistic outlook for the winter wheat crop was apparent during the remainder of the month, and prices showed rather large net losses for the month as a whole. The cash quotation for the Number 1 grade at Minneapolis, after rising to $1.03 a bushel on May 7, subsequently declined to the lowest level since May, 1934, closing the month at 90⅜ cents, down 9⅝ cents from the end of April. The May 1 Government winter wheat estimate, released on May 10, placed this season's harvest at 754,000,000 bushels, or about 28,000,000 bushels above the previous month's forecast and about 200,000,000 bushels above the average production in the ten year period, 1927-36.

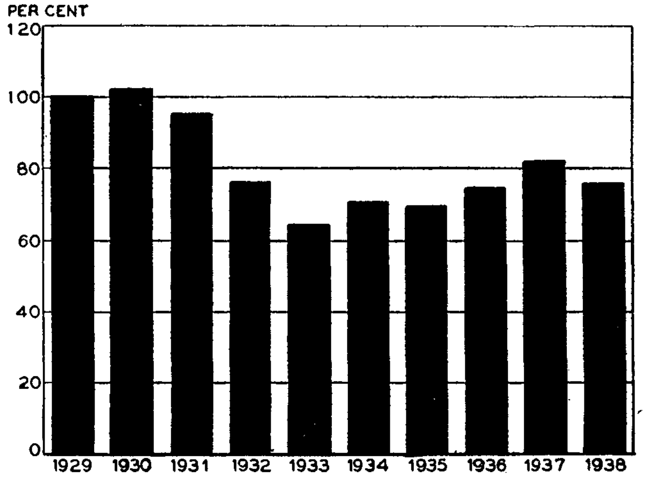
Reflecting to some extent reports of favorable weather conditions in the latter part of the month, spot cotton declined 86 points during May to 7.92 cents a pound, a new low for the year. A loss of 17 points brought the price of raw sugar to 2.65 cents a pound, or within 8 points of the all-time low reached in 1932, and declines for the month occurred also in the prices of corn, raw silk, domestic wool, and rayon. On the other hand, the average price of hogs, which had moved lower in the two previous months, rose 65 cents to $8.76 a hundredweight during May, and a further small advance occurred in the average price of steers.

With the exception of the price of zinc, which moved somewhat lower, prices of both ferrous and nonferrous metals held steady during the first half of May. On May 19, however, custom smelters and primary producers lowered the spot copper price by 1 cent to 9 cents a pound; this represented the first change since last January and brought the price to the lowest level since October, 1935. By the end of the month the price of copper for export had receded to about 8.20 cents a pound. The price of lead, which had shown no change since early last February, was reduced ½ cent in the latter part of May to 4 cents a pound, the lowest since May, 1935. During the two weeks ended May 24 scrap steel at Pittsburgh declined 75 cents to $11.00 a ton, the lowest level since November, 1934, while the price at Chicago was lowered 50 cents to $10.75 a ton, a new low since July, 1935.

Department Store Trade

Sales of the reporting department stores in this district during the first three weeks of May were about 11 per cent lower than in the corresponding period of 1937, and, after adjustment for seasonal factors, there appears to have been a continuation of the gradual decline that has been in progress since January. For the first five months of this year, including an estimate for the full month of May based on figures for three weeks, the total dollar volume of sales of the reporting stores in this district was 7 per cent below the 1937 figure, but was little different from 1936, as the accompanying diagram indicates.

In April, the decline from a year ago in department store sales in this district was reduced to ½ per cent, because of buying connected with the late Easter, and the fact that there was one more Saturday in April this year than last. Sales of the reporting stores in most of the localities showed only small net changes from a year



Dollar Volume of Department Store Sales in Second Federal Reserve District During First Five Months of Past Ten Years (First five months of 1929=100 per cent; May 1938 partly estimated)

ago, and sales of stores in Northern and Central New York State and in the Hudson River Valley District were well above last year's volume. Sales of the leading apparel stores in this district were 6 per cent below April, 1937.

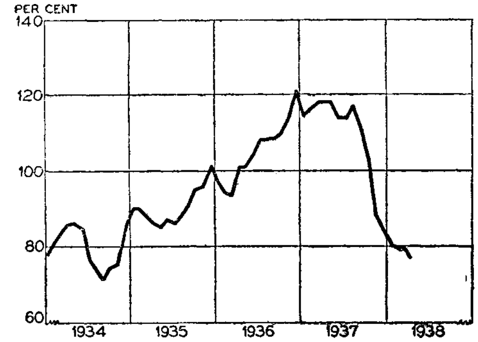
Stocks of merchandise on hand in the department stores, at retail valuation, were 10 per cent lower at the end of April, 1938 than at the end of April, 1937, and apparel store stocks were 8 per cent lower. Collections of accounts outstanding continued to be slower than a year ago, both in the department and apparel stores.

Locality	Percentage change April, 1938 compared with April, 1937		Per cent of accounts outstanding March 31 collected in April	
	Net sales	Stock on hand end of month	1937	1938
New York and Brooklyn	− 0.8	−11.0	51.0	48.9
Buffalo	− 4.1	− 1.8	49.3	41.8
Rochester	+ 1.9	− 2.3	57.2	55.1
Syracuse	+ 1.2	− 5.8	42.2	40.4
Northern New Jersey	− 2.0	−12.9	43.5	42.9
Bridgeport	+ 4.4	−12.2	40.3	38.4
Elsewhere	+ 4.1	− 4.9	34.5	32.7
Northern New York State	+19.9	......	....	....
Southern New York State	+ 0.1	......	....	....
Central New York State	+ 7.3	......	....	....
Hudson River Valley District	+15.6	......	....	....
Capital District	− 0.5	......	....	....
Westchester and Stamford	+ 1.7	......	....	....
Niagara Falls	− 0.1	......	....	....
All department stores	− 0.6	−10.1	48.0	45.8
Apparel stores	− 6.0	− 8.1	46.0	43.0

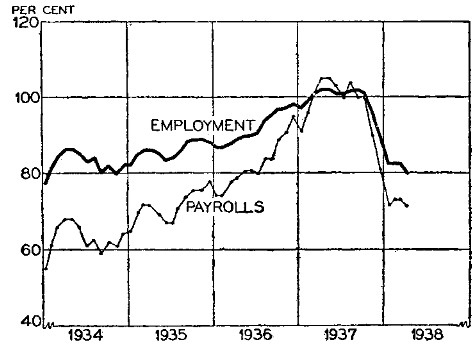
Department Store Sales and Stocks, Second Federal Reserve District (1923-25 average = 100)

	1937	1938		
	April	February	March	April
Sales, unadjusted	90r	74	77	88
Sales, seasonally adjusted	97r	91	90	89
Stocks, unadjusted	93r	76	80	83
Stocks, seasonally adjusted	91r	81	80	81

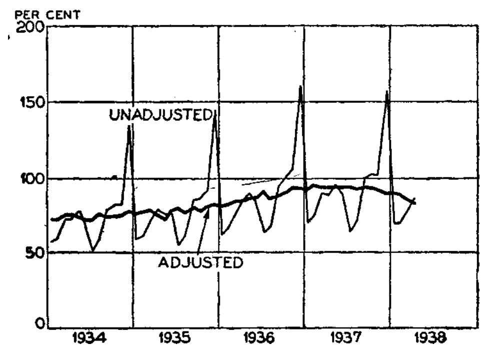
r Revised



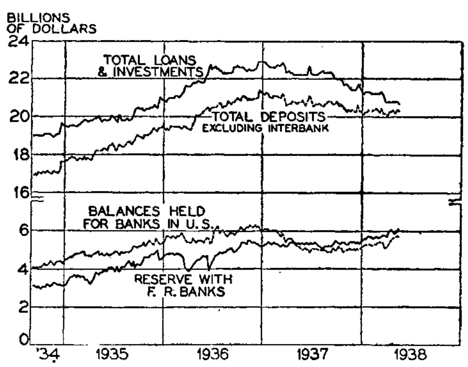
Index Number of Production of Manufactures and Minerals Combined, Adjusted for Seasonal Variation (1923-25 average=100 per cent)



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



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



Wednesday Figures for Reporting Member Banks (Latest figures are for May 18)

Business Conditions in the United States

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

INDUSTRIAL production declined in April, reflecting chiefly reduced activity in the cotton textile and lumber industries. Distribution of commodities increased less than seasonally but continued to be somewhat in excess of production. Commodity prices showed a further decrease.

Production

In April volume of industrial production, as measured by the Board's seasonally adjusted index, was at 77 per cent of the 1923-1925 average as compared with the level of about 79 per cent maintained during the first quarter of the year. The decline reflected, chiefly, considerable reductions in output at cotton textile mills and lumber mills, where there had been moderate increases in production in March. In most other manufacturing industries changes in activity were largely seasonal in character. Output at steel mills continued at around 33 per cent of capacity and in the automobile industry showed little change, amounting in April to about 40 per cent of the volume of a year ago. In the first three weeks of May production of steel and automobiles was at a lower rate than in April. At mines there was a considerable decline in output of anthracite in April, while bituminous coal production showed somewhat less than the usual seasonal decrease. Crude petroleum production continued in large volume.

Value of construction contracts awarded, which had increased considerably in March, showed little change in April, according to figures of the F. W. Dodge Corporation. Awards usually increase somewhat further in April. In the first four months of this year private residential building was about one fourth less than in the corresponding period last year, while other private work, particularly industrial and utility construction, was only about one half as large as a year ago. Awards for public projects were somewhat larger than last year.

Employment

Factory employment and payrolls declined from the middle of March to the middle of April, and the Board's seasonally adjusted index of employment was at 79 per cent of the 1923-1925 average as compared with 82 in March and 84 at the beginning of the year. The number employed at automobile factories declined sharply and there were further substantial decreases in the steel and machinery industries and at railroad repair shops. Smaller declines were reported in most other manufacturing industries. Employment at mines and on the railroads also decreased, while in trade there was some increase in the number employed, reflecting partly increased business at the Easter season.

Distribution

Distribution of commodities to consumers showed less than the usual seasonal rise in April. The Board's adjusted index of department store sales was 83 per cent in April compared with 86 in March and 90 at the beginning of the year, and figures for the first half of May indicate a further decrease.

Freight car loadings also declined from March to April, reflecting largely reduced shipments of miscellaneous freight, and were about 30 per cent less than in April 1937.

Commodity Prices

Wholesale prices of industrial commodities continued to decline from the middle of April to the third week of May and prices of agricultural products also decreased somewhat further. Steel scrap, copper, and rayon showed considerable declines and there were reductions in prices of some finished industrial products. It was announced that prices of most finished steel products would be unchanged for third quarter delivery.

Bank Credit

Total loans and investments of reporting member banks in 101 leading cities showed little change during April and the first half of May. Holdings of United States Government obligations increased somewhat, while holdings of other securities and loans declined. Adjusted demand deposits in leading cities increased during the period as a result of expenditures by the Treasury from its balances with the Reserve Banks. Interbank deposits also increased substantially.

Member bank reserves increased further, reflecting principally Treasury disbursements from its deposits at the Reserve Banks, including retirement of $50,000,000 of Treasury bills each week.

Money Rates and Bond Yields

Yields on Government securities declined slightly further in the four weeks ended May 21 to an average for longer term Treasury bonds of 2.28 per cent. The average yield on 3 to 5 year Treasury notes declined to a new low of 0.73 per cent. The rate on three month Treasury bills continued at record low levels, and other open market money rates remained unchanged.