MONTHLY REVIEW

of Credit and Business Conditions

Second Federal Reserve District

Federal Reserve Bank, New York — *July 1, 1938*

Money Market in June

There has been little change in the money market during the past month, funds remaining in ample supply at low rates. Developments in the market have been largely dominated by transactions connected with Treasury financing of June 15 and the payment of second quarter income taxes.

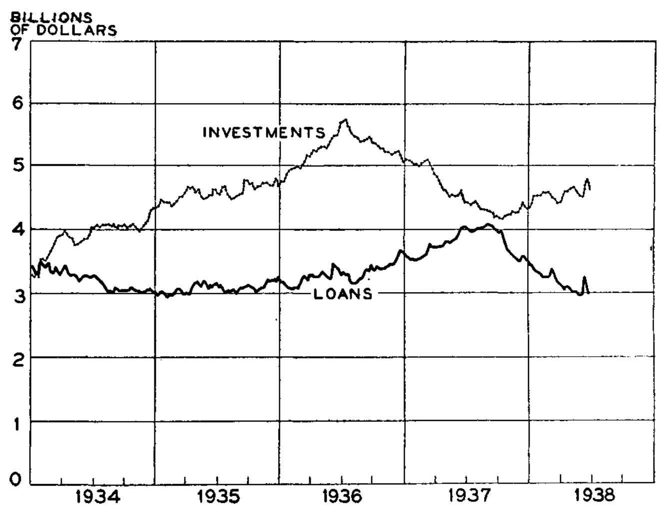
A temporary increase of unusual magnitude occurred in the loans and investments of the New York City weekly reporting member banks in the first week of June, as Government security dealers and, to a smaller extent, New York City banks bought large amounts of Treasury notes maturing on June 15 and September 15, which were exchangeable for the new Treasury notes and bonds issued on June 15. Dealers' purchases were reflected in an increase of $242,000,000 in the item "Loans to brokers and dealers" in the New York City member bank statement as of June 8; bank purchases caused an increase of $115,000,000 in the item "U. S. Government direct obligations". These two increases, together with smaller increases in loans to banks and in other investments, resulted in a total increase of $465,000,000 in the earning assets of the reporting banks for the week.

The report for the following week, ended June 15, showed the repayment of a large part of the borrowings of Government security dealers, indicating the prompt distribution of most of the new Government securities acquired by the dealers, but holdings of Government securities by the New York City banks showed a further increase of $64,000,000, so that only one-third of the increase in total loans and investments in the preceding week was canceled. In the third week of June, however, a considerable part of the remaining increase in the total loans and investments of New York City banks was canceled, largely as a result of the retirement of $250,000,000 of special Treasury tax date bills—a considerable part of which were held in New York—with the proceeds of income tax collections.

Changes in the reserve position of the New York City banks during June also reflected the transactions connected with the June Treasury financing and tax period. After reaching a new high point since the middle of 1936, above $1,200,000,000, the excess reserves of the principal New York City banks were reduced more than $200,000,000 during the first two weeks of June, partly through the usual first of the month transfers to other parts of the country, and partly through payments for Government securities purchased by New York dealers and banks from holders in other localities. During the latter half of the month, however, there was a renewed increase, largely through Government interest payments and redemptions of maturing Treasury bills, and excess reserves near the close of the month rose further to $1,300,000,000.

Despite the efforts of the New York City banks to find employment for their surplus funds, however, there was little evidence in June of a lasting reversal of the recent downward tendency in total loans and investments. As the accompanying diagram shows, all of the expansion in the loans of these banks between the early part of 1935 and the early autumn of 1937 has now been canceled. Commercial and industrial loans remain somewhat larger than they were three years ago, but the volume of security loans is substantially lower. As the diagram also shows, investments of the New York City banks have shown an irregular expansion since last autumn, but the growth in investments has not been sufficient to offset, fully, the shrinkage in loans. The principal expansion since the beginning of this year has been in holdings of Government guaranteed securities, which are now approximately $300,000,000 greater than at the end of December, 1937. Holdings of direct obligations of the Government have shown a small net decline, which may be attributed to the reduction in the volume of Treasury bills outstanding, as, on balance, the New York City banks have made net purchases of Government securities from other investors during this period. Holdings of municipal and other securities have shown a small net increase.

In reporting member banks in 100 other principal cities throughout the country, there was a further net reduc-



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

tion of a little over $100,000,000 in total loans and investments during the four weeks ended June 22. Commercial and industrial loans showed a further reduction of $70,000,000, and holdings of direct obligations of the Government a net reduction of about $80,000,000, but there were small increases in holdings of Government guaranteed and other securities.

Although the total loans and investments of all reporting member banks showed comparatively little change during the past month, adjusted demand and time deposits showed a further net increase of nearly $270,000,000 in the four weeks ended June 22. On June 15 deposits reached the highest level since the middle of 1937, but a moderate reduction occurred in the following week, due to income tax collections. The principal factor in the continued increase in bank deposits again was Government disbursements.

Money Rates

Reflecting the large volume of funds seeking employment, there continued to be a very active demand for short term open market loans and investments, and further slight declines occurred in commercial paper rates and in yields on short term securities during June.

Money Rates in New York

	June 30, 1937	May 31, 1938	June 29, 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
Bills—90 day unindorsed	7/16	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)	1.55	0.69	†0.68
Average yield on Treasury bonds (more than 8 years to maturity or call date)	2.65	2.29	‡2.35
Average rate on latest Treasury bill sale 91 day issue	....	0.03	0.01
Federal Reserve Bank of New York rediscount rate	1½	1	1
Federal Reserve Bank of New York buying rate for 90 day indorsed bills	½	½	½

* Nominal
† Change of +0.06 per cent in average yield due to substitution of new 1⅛ per cent Treasury notes maturing June 15, 1943 for the 1⅜ per cent Treasury notes maturing June 15, 1941, which mature within 3 years.
‡ Change of +0.10 points in average yield due to dropping the 3 per cent Treasury bonds of 1946-48 and the 3⅛ per cent Treasury bonds of 1946-49, because they are callable within 8 years, and adding the new 2¾ per cent Treasury bonds of 1958-63.

Government Securities

On June 6 the Treasury announced an offering of 2¾ per cent Treasury bonds maturing in 1963 and callable in 1958, and of 1⅛ per cent Treasury notes due June 15, 1943, to be issued on June 15, 1938 in exchange for Treasury notes maturing on that date and on September 15, 1938. Of the $618,000,000 of notes maturing on June 15, nearly $572,000,000 were exchanged for the new bonds, and $36,000,000 were exchanged for the notes; of the $596,000,000 of notes maturing on September 15, $347,000,000 were exchanged for the bonds and nearly $232,000,000 for the new issue of notes. Consequently, only a small amount of both issues was left to be redeemed in cash.

On June 8 the Treasury increased its weekly offering of Treasury bills from $50,000,000 to $100,000,000, and continued to offer the same amount each week for the remainder of the month. Maturities were at the rate of $100,000,000 a week on June 1, 8, and 15, and $150,000,000 on June 22 and 29, and in addition $250,000,000 of special tax period bills matured on June 16 to 18 inclusive. Thus there was a net retirement of $400,000,000 of Treasury bills during the month.

The average rate at which the new Treasury bills were sold increased slightly on June 8, when the amount of the issue was doubled, but subsequently there was a renewed decline in the average rate, especially on the issues of June 22 and June 29, when the amount sold was again $50,000,000 less than the amount maturing. The prices bid for the last two issues in June resulted in successive new low rates for Treasury bills—0.016 on the issue of June 22, and 0.011 on the issue of June 29, as compared with 0.040 on the issue of June 8, and 0.025 on the last issue in May.

Average yields on 3 to 5 year Treasury notes declined further to new low levels during the first three weeks of June, and after a slight increase in the fourth week of the month, turned downward again as the month closed. The market for Treasury bonds also was strong in the early part of the month, and the average price of outstanding Treasury bonds with more than 8 years to run to call date or maturity, rose to between ¼ and ½ point of the highest level reached in December, 1936. After leveling out until the middle of the month, a further slight rise occurred in the third week, but a moderate recession began on June 22 and continued until the closing days of the month, when the market again turned strong.

Commercial Paper and Bills

Accompanying a further expansion in bank investment demand for business notes and a continued contraction in available supplies, the rate for average grade prime 4-6 month commercial paper receded slightly to ¾ per cent from the ¾-1 per cent range which had been in effect during the preceding three months. A small volume of business continued to be reported at 1 per cent, but these transactions, for the most part, were in the notes of the smaller and less well known borrowers. The choicest grade paper was quoted at ⅝ and ½ per cent; while these rates applied generally to short maturities, they have been quoted on a few occasions for paper having six months to run. At the end of May commercial paper brokers had $251,200,000 of paper outstanding, a decrease of approximately 7 per cent from April, and of about 12 per cent from a year ago.

There continued to be an active demand for bankers acceptances during June, but new bills again entered the market in very small volume. Outstanding bankers acceptances at the end of May totaled $268,000,000, a reduction of $11,000,000 for the month which is attributable to further declines in export and import bills. Import bills have declined continuously since May, 1937, and are less than half the volume outstanding in that month; the decrease in this group represents nearly three-fourths of the decline in total outstandings for the year.

(Millions of dollars)

Type of acceptance	May 31, 1937	April 30, 1938	May 31, 1938
Import	168	86	81
Export	81	71	64
Domestic shipment	13	9	9
Domestic warehouse credit	48	51	49
Dollar exchange	1	1	1
Based on goods stored in or shipped between foreign countries	75	61	64
Total	386	279	268

Security Markets

Stock prices, after fluctuating within a narrow range in extremely dull trading during the first 18 days of June, suddenly turned strong on June 20, and a rapid rise occurred during the remainder of that week, accompanied by a great increase in the volume of trading. At the close of business on June 25, the Standard Statistics Company composite index of 90 representative stocks was 18 per cent higher than on June 18, and was 34 per cent above the low point for the year which was reached on March 31. After some irregularity on June 27 and 28, the rise was resumed on June 29 and the average level of prices at the close was above that of June 25. The turnover of stocks on the New York Stock Exchange rose from an average volume of about 300,000 shares during the week ended June 18 (the smallest volume in several years) to more than 2,000,000 shares a day in the latter part of the following week. Thereafter the volume of trading tended to diminish rapidly on any recession in prices but showed renewed activity on upturns.

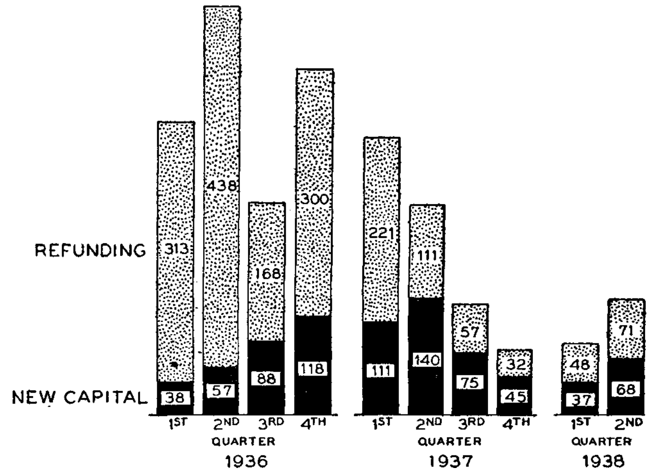
While all groups of stocks participated in the rapid rise during the week ended June 25, the largest gains were made by railroad stocks, in which the average rise was approximately 30 per cent. Industrial stocks showed an average rise of about 18 per cent during the week, and public utility stocks a rise of about 10 per cent, but as railroad stocks had shown the greatest weakness and public utility stocks the largest recovery since the end of March, all groups at the end of June were more than one-third above the low points reached on March 31.

The rise in stock prices was accompanied by a similar, though more limited, advance in prices of medium and lower grade corporation bonds. In the week preceding the upturn, such bonds had shown much more pronounced weakness than stock prices, and the Baa bond price average fell within about 2 points of the lowest level of the year reached at the end of March. Railroad bonds were especially weak at that time, when it became evident that no legislation to relieve the situation of the railroads could be passed at the session of Congress just ending; nevertheless, it was also the railroad issues that showed the strongest recovery in the week beginning June 20. At the close on June 29, the Baa bond average was about $6\frac{1}{2}$ points higher than on June 18, and showed a net rise of about $3\frac{1}{2}$ points for the month.

The highest grade corporation bonds, especially railroad issues, and, to some extent, industrials, also declined during the first 18 days of the month, and although there was a subsequent upturn, the average price of Aaa bonds closed the month about 1 point lower than a month previous.

New Financing

Corporate security flotations in June totaled about $280,000,000, the largest amount for any month since June, 1937. Some $160,000,000 of the total was for new capital purposes, an amount greater than the monthly average for any preceding quarter during the recovery period since 1932. As was the case in 1937, also, financing for new capital during June counterbalanced the smaller volume of flotations in April and May, so that the second quarter average was considerably higher than that of the first quarter. The accompanying chart shows monthly averages of new financing by quarters since the beginning of 1936. Present plans for security offerings in July indicate another relatively active month in the distribution of new issues.



Average Monthly Volume of Domestic Corporate Security Issues for New Capital and for Refunding (In millions of dollars)

The large corporate issues during June all met with immediate success and were entirely disposed of by the underwriting syndicates. The largest offering was $100,000,000 of United States Steel Corporation debenture $3\frac{1}{4}$s of 1948, at 100. The proceeds are to complete the financing of the corporation's program of plant expansion and modernization which has been under way for several years. Thirty-three million dollars of Commonwealth Edison Company first mortgage $3\frac{1}{2}$s of 1968 were publicly offered at $102\frac{1}{4}$, and about $39,000,000 of convertible debenture $3\frac{1}{2}$s of 1958 offered to holders of the common stock of the same company at par were 97 per cent subscribed for, the underwriters receiving the remaining 3 per cent. An issue of $7,800,000 convertible preferred stock of Philip Morris and Company, Ltd., offered to stockholders was also successful, and was quoted at a premium of 10 to 18 points in the latter part of June. Debenture $3\frac{1}{4}$s of 1968 of Mountain States Telephone and Telegraph Company were marketed at 102 in the amount of $30,000,000. Two blocks—one of $18,000,000 and one of $10,400,000—of Consolidated Gas, Electric Light, and Power Company of Baltimore refunding mortgage $3\frac{1}{4}$s of 1968 were placed privately with insurance companies holding bonds of the same company bearing higher coupon rates which were being refunded. The Shell Union Oil Corporation also placed a $25,000,000 issue privately with insurance interests. An issue of $6,300,000 Pennsylvania Railroad Company equipment trust certificates, which is included in the June totals above but not in the chart, was awarded on June 29 and placed privately with institutions.

State and local Government bond flotations during the month amounted to over $130,000,000, the largest total since January, 1937. Over half was for refunding. The largest issue was $60,000,000 of Metropolitan Water District of Southern California 4s of 1946-86, which dealers acquired from the Reconstruction Finance Corporation and reoffered at prices to yield 2.65 to 3.65

per cent. The issue was almost entirely placed within a few days. City of Boston 2¾ per cent bonds of 1939-68, offered in the amount of $11,494,000 to yield 0.60 to 2.85 per cent, were all sold, and the City of Philadelphia awarded two issues totaling $11,000,000 to the Pennsylvania School Employees Retirement Board.

In the field of short term financing, an offering of $60,000,000 Commonwealth of Pennsylvania one year notes, priced to yield 0.50 per cent, was sold within an hour. A $41,500,000 issue of Federal Home Loan Bank one year debentures yielding 0.435 per cent was oversubscribed, as was also the usual monthly financing by the Federal Intermediate Credit Banks.

Foreign Exchanges

Rumors in the foreign exchange market of further devaluation of the dollar resulted in a decline of the dollar against the major European currencies during the first half of June. Sterling rose from $4.94^{7}/_{16}$ on June 1 to $4.98¼ during the course of trading on June 15, as dollars were offered for the purpose of buying gold in London. The dollar equivalent of the London gold price advanced from $34.79½ to $35.02½ over the same period, and the turnover in gold in the week ended June 15 was the largest since the first week of June, 1937, when a dishoarding movement was at its height. Repeated official denials from Washington that consideration was being given to proposals to devalue the dollar finally halted the rise in sterling, which receded to $4.95⅜ on June 21 and closed the month at $4.95^{7}/_{16}$. The dollar equivalent of the London gold price similarly declined to around $34.86 at the end of the month.

The rise in sterling in the early part of June was apparently not associated with any large movement of funds from New York to London, for it induced short selling of the pound and further covering of long sterling positions in this market, where the rumors of dollar devaluation were not so widely credited as in Europe. The discount on three-month forward contracts in the pound sterling, which had narrowed from the equivalent of ½ per cent per annum during most of May to ⅜ per cent per annum from June 2 to June 10, returned to ½ per cent per annum on June 22 and closed the month at about that level.

The movements of the dollar against the Swiss franc and the guilder paralleled those against the pound. The French franc was held steady at around 178⅜ francs to the pound in London until June 21, since when it has been held at 177⅞-15/16. The recovery of the belga, which began on May 26, continued into June, and quotations in this market rose from $0.1691½ on May 31 to $0.1704 on June 16 before settling to $0.1695. Three-month belgas recovered from a discount equivalent to 8¼ per cent per annum on May 31 to a discount of 5 per cent per annum at the end of June.

The Canadian dollar, which has been steadily below par since early March, was at a discount of close to 1 per cent at the end of June.

The Shanghai dollar broke sharply to about $0.1700 on June 13 from $0.2250 on May 31 as a result of the further curtailment of weekly allotments of exchange by the Hankow authorities; it recovered to $0.1938 on the 20th and settled at around $0.1850 near the end of June.

In Latin America rates were generally unaltered, and the underlying exchange situation continued difficult in most countries. The Argentine free peso firmed up to $0.2630 at the middle of the month, but closed at its May-end level of $0.2615. Mexican exchange moved irregularly, the nominal quotation standing at $0.21 in the latter part of June as against $0.2275 at the end of May. The Brazilian authorities are reported to be furnishing spot dollars to cover drafts arising from imports of United States origin, and the milreis is nominally quoted at $0.585. In Chile an exchange shortage developed in June, with some delay in fulfilling importers' requirements for dollar exchange.

Gold Movements

Except for one day early in the month, the dollar equivalent of the London gold price was not favorable to the sale of gold for import into the United States in June, and the $13,100,000 of gold which reached New York from England in this month consisted mainly of the balance of the metal engaged in London for shipment here towards the end of May. In addition, preliminary figures for imports of gold affecting the gold stock of the United States in June show receipts at New York of $2,200,000 from India and $600,000 from Holland, while on the West Coast $5,900,000 of gold was received from Japan, $2,200,000 from Australia, and $1,100,000 from Hong Kong. There was also a gain to the gold stock through the release of $1,700,000 from foreign earmarked holdings at the Reserve Bank 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 June.

Foreign Trade

Exports of merchandise from this country during May were valued at $257,000,000 and imports at $148,000,000, and as both amounts were smaller than in the preceding month, the export balance of $109,000,000 was substantially the same as in April. The decline from a year ago of 48 per cent in the value of imports reflects in somewhat accentuated form the downward tendency in American demand for foreign merchandise that has prevailed for some months, while in the case of exports the May decline of 11 per cent in value was the first reduction from a year previous that has occurred since November, 1936.

Data now being made available currently by the Department of Commerce, classifying the foreign merchandise trade of the United States by major economic groups, are given in the accompanying table. These data show striking contrasts between the movements of different types of products. Exports of crude foodstuffs, chiefly grains, and of most manufactured foodstuffs, including meat and dairy products and prepared fruits and vegetables, showed larger percentage increases over a year previous in May than in the preceding four months. On the other hand, shipments of finished manufactures, the leading economic group among this country's exports, were 12 per cent smaller in value than in May, 1937, reversing their tendency to expand since the summer of 1933. While the majority of individual products in this class of exports shared with the total in the decrease from a year ago, exceptions continued to occur in agricultural and industrial machinery, aircraft, cotton cloth, and gasoline. Exports of semimanufactures, including copper, partly finished iron and steel products, and lumber, and exports of crude materials, chiefly raw cotton and unmanufactured tobacco, showed substantially larger declines from a year ago in May than in the first four months of this year.

All of the major groups of imports, as well as most of the leading individual imports, showed large decreases in value from May, 1937, ranging from declines of 28 per cent in imports of finished manufactures to 56 per cent in receipts of crude materials. Receipts of coffee, copper, cheese, and diamonds were among the few individual imports that were larger in quantity than a year ago, but of these commodities diamonds and cheese only showed an increase in value.

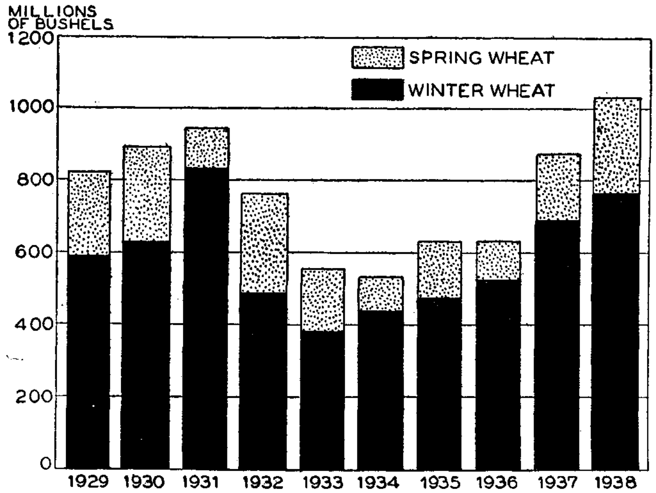
	Dollar value (in millions) May, 1938		Percentage change			
			May, 1938 compared with May, 1937		January-April, 1938 compared with January-April, 1937	
	Exports	Imports	Exports	Imports	Exports	Imports
Crude foodstuffs	34.1	19.6	+852.8	— 47.4	+530.8	— 45.6
Finished manufactures	128.0	33.4	— 11.7	— 27.6	+ 10.4	— 22.4
Manufactured foodstuffs	14.0	26.2	+ 10.0	— 44.4	+ 4.9	— 36.5
Semimanufactures	42.6	27.8	— 40.6	— 50.2	— 1.8	— 41.6
Crude materials	34.8	40.2	— 33.1	— 56.0	— 4.5	— 44.3

Commodity Prices

As a result of a recovery movement in the prices of farm products in the early part of June, supplemented by a rise in the prices of several of the principal metals and other industrial raw materials in the latter part of the month, the general level of actively traded commodities, as measured by Moody's index of 15 raw products, closed June about 8 per cent above the four and one-half year low established on June 1.

As is usual at this time of the year, wide price movements were shown in those products which are highly sensitive to weather and crop growing conditions. Wheat prices, which had been declining in previous months as a result of reports of favorable weather conditions, turned upward during the first half of June, largely as a result of excessive rains in the winter wheat area together with reports of black rust damage. The fact that the Government June 1 wheat estimate, released on June 10, was considerably below private forecasts made earlier in the month was a factor contributing to this rise. Although some reaction occurred toward the end of the month, rather sizable net gains were shown for June as a whole in both spot and futures quotations. Cash wheat at Minneapolis rose to \$1.09½ a bushel on June 14, and although closing the month at 98⅞ cents, nevertheless remained 8¼ cents higher than at the end of May.

Based upon conditions prevailing on June 1, the Department of Agriculture estimated the 1938 wheat harvest at 1,021,000,000 to 1,046,000,000 bushels, which



Annual Harvests of Winter and Spring Wheat, 1929-1937, and Department of Agriculture Estimate of 1938 Wheat Production Based on June 1 Conditions

if realized would represent the largest domestic wheat crop on record. Winter wheat was placed at 760,600,000 bushels, or only about 7,000,000 above the previous month's estimate, as compared with private estimates which had placed the crop about 56,000,000 bushels above the official May 1 figure. With respect to spring wheat, March acreage intentions and June 1 conditions indicated a 1938 production of 260,000,000 to 285,000,000 bushels, as compared with last year's crop of 188,900,000 bushels.

The accompanying diagram compares the Government June 1 estimates for this season's spring and winter wheat crops with the actual harvests for the years 1929 to 1937. It will be seen that the indicated 1938 winter wheat output is exceeded by only one harvest (1931) in the past nine years and if the current spring wheat estimate should be realized, total wheat production will be well above even that year's output, and almost double the 1933 and 1934 crops.

Stimulated to a large extent by unsatisfactory weather conditions and reports of insect infestation, spot cotton rose 114 points from the low reached at the end of May to close the past month at 8.85 cents a pound. The price of raw silk, which declined 6 cents in the previous month, rose 14 cents to \$1.72½ a pound during June, and a gain of 3¼ cents brought the price of crude rubber to 14¾ cents a pound. A further advance occurred in the average price of steers.

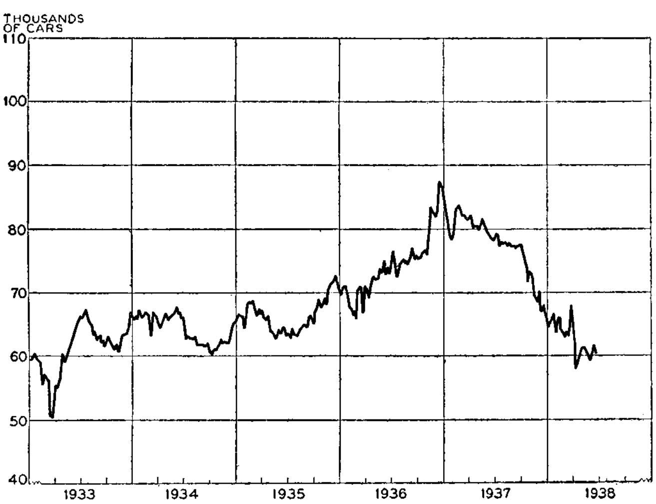
Scrap steel at Pittsburgh, which had held at \$10.75 a ton for three weeks, rose 75 cents to \$11.50 a ton during the week ended June 21, and a further advance was reported in the following week. With respect to the nonferrous metals, a considerable recovery was shown in the latter part of June; the price of lead rose 50 points to 4.50 cents a pound, thus canceling the decline shown in May, zinc closed at 4.50 cents a pound, also up 50 points from the end of May, and tin closed at 42.60 cents a pound for a gain of 5.85 cents. Steel producers announced that prices of semifinished and finished steel products, which had held practically unchanged from levels established in the spring of 1937, are to be reduced for third quarter delivery.

Production and Trade

According to preliminary reports, the general level of business activity remained close to the May average during June. In automobile plants there was a sharp recovery following low production during the Memorial Day week, but assemblies for June as a whole showed at least the usual reduction from May. Steel production apparently was smaller than in May, as in most years, but there was an advance in operations during the month from 25 or 26 per cent of capacity at the beginning to 28 per cent at the end. It was reported that cotton mill operations were approximately unchanged from May to June, instead of declining as in most other years, and during the latter part of the month there was a substantial pickup in sales of gray goods. Electric power production increased seasonally during June, and there are indications that bituminous coal output was larger than in the preceding month. Department store sales in this district for the four weeks ended June 25 were slightly higher than the May level, although approximately 11½ per cent below the corresponding period of June, 1937.

As illustrated in the accompanying diagram, railway loadings of merchandise and miscellaneous freight, after adjustment for usual seasonal changes, have shown an irregularly rising tendency since the first part of April. Anticipation of the recent rate increases appears to have been largely responsible for the sharp rise in freight traffic in late March, and for the reaction at the beginning of April to the lowest level since April, 1933, both of which movements are shown in the diagram.

There was no substantial change in the general level of production and trade during May. Production of steel, lead, and bituminous coal contracted; copper output was reduced to the lowest rate since 1935; and there was a decline in automobile assemblies, partly of a seasonal nature. Machine tool orders declined further and amounted to less than one-third the volume of May, 1937. On the other hand, operations at cotton mills and meat packing plants were little changed, cement production and tobacco manufacturing rose seasonally, wool mills were more active, and electric power generation was substantially unchanged instead of declining as in most other years.



Average Daily Railway Loadings of Merchandise and Miscellaneous Freight, Adjusted for Seasonal Variation

After allowance for seasonal factors, May sales of department stores and chain stores other than grocery were considerably lower than in April, while mail order house sales were little changed and grocery chain sales were somewhat higher. Railway loadings of merchandise and miscellaneous freight increased slightly, but less than the usual seasonal advance was indicated in shipments of bulk commodities.

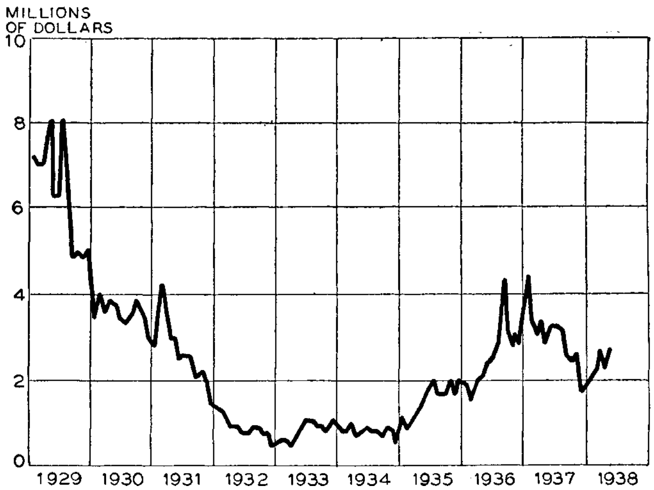
(Adjusted for seasonal variations, for estimated long term trend, and where necessary for price changes)

	1937	1938		
	May	March	April	May
Industrial Production				
Steel	105	39	39	36
Copper	111	65	63	58*p*
Passenger cars	101	42	38	35
Motor trucks	119	55	48	46
Bituminous coal	84	64	67	62*p*
Crude petroleum	98	93	91	85*p*
Electric power	96	84	83*p*	84*p*
Cotton consumption	116	75	70	70
Wool consumption	126*r*	52	48	62*p*
Shoes	126	104	102*p*	103*p*
Meat packing	74	84	79	80
Tobacco products	86	92	88	87
Cement	63	53	53	54
Machine tool orders*	198	88	78	61
Employment				
Employment, manufacturing, U. S.	104	83	80	79*p*
Employee hours, manufacturing, U. S.	96	66	64	63*p*
Construction				
Residential building contracts	29	28	24	30
Nonresidential building and engineering contracts	51	45	45	63
Primary Distribution				
Car loadings, merchandise and misc.	91*r*	73	68	69
Car loadings, other	96	63	63	61
Exports	93	87	92	90*p*
Imports	101	66	61	59*p*
Distribution to Consumer				
Department store sales, U. S.	92	81	81	78
Department store sales, 2nd District	87	79	78	75
Chain grocery sales	95	102	99	101*p*
Other chain store sales	101	86	91	86
Mail order house sales	114	90	91	90
New passenger car registrations	96	50	47	43*p*
Money Payments				
Bank debits, outside New York City	67	59	56	57*p*
Bank debits, New York City	35	35	35	34*p*
Velocity of demand deposits, outside New York City**	70	62	61	61
Velocity of demand deposits, New York City**	42	38	40	38
General price level#	162	152	152	151*p*
Cost of living#	151	149	149	148*p*
Composite index of wages†	108	110	110	110

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

Owing mainly to the placing of large additional contracts for a new water supply project for New York City, total construction contracts awarded in the New York and Northern New Jersey area in May were more than twice as large as in April. In addition to the increase in heavy engineering work, substantial gains were recorded in the other major categories. Compared with May, 1937 total contracts were 37 per cent higher, but the increase resulted largely from contracts for the large project mentioned above. Residential contracts were 15



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

per cent smaller than a year previous, and commercial and industrial contracts were 25 per cent less.

For the 37 States covered by the F. W. Dodge Corporation reports, total contracts awarded during May showed a 33 per cent increase over April, which, again, was due chiefly to the large increase in the heavy engineering classification, although there were smaller gains in all of the other major types of construction with the exception of commercial and industrial building. Total contracts in May were 16 per cent higher than in May last year; a large increase in engineering projects more than offset a reduction in commercial and industrial contracts, and residential building awards were almost equal to those of a year ago.

With the exception of a temporary setback in April, contract awards for residential building advanced during the first five months of 1938, as is indicated in the accompanying diagram, which shows daily average figures adjusted for seasonal variation. The increase of 55 per cent since the beginning of the year has canceled over two-thirds of the loss occurring during the second half of 1937. The decline toward the end of 1937 was probably exaggerated by a tendency to delay projects in order to obtain advantage of the new Federal Housing Administration terms, and the availability of mortgages on the more favorable terms has undoubtedly exercised a stimulating effect on residential construction this spring.

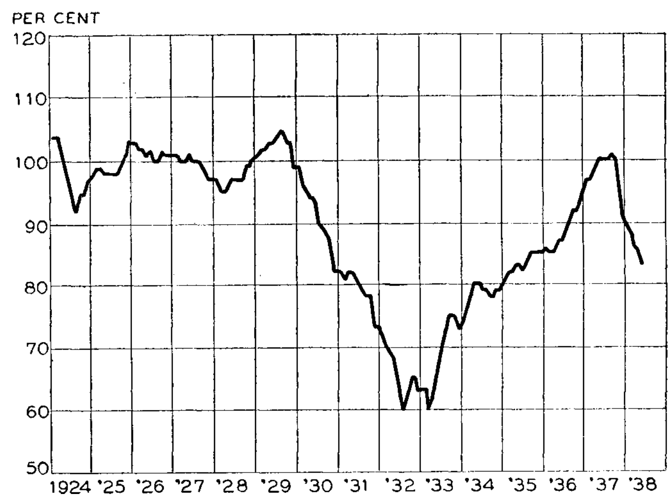
Owing principally to a 37 per cent reduction in contracts for heavy engineering work, which had been especially large in May, the daily rate of construction contract awards during the first three weeks of June declined 19 per cent from the May rate. Compared with the corresponding period of 1937, total contracts in the first three weeks of June were 23 per cent lower, each of the three major classifications showing reductions.

Employment and Payrolls

Following a less than seasonal increase during April, it is estimated that 300,000 nonagricultural workers lost their employment during May, whereas, according to the United States Department of Labor, there is usually an addition of 200,000 employees at this time of year. A further reduction of over 170,000 occurred in factory working forces, and the release of nearly 200,000 was reported in retail and wholesale trade following the spring expansion. There was an increase in employment in the construction industry.

Employment in United States factories declined 2½ per cent and payrolls about 2 per cent. Declines occurred in the working forces of all the major durable goods industries except stone, clay, and glass, and fewer employees were reported also in all the major nondurable goods classifications except food and tobacco. Compared with a year ago, the number of factory workers was reduced 24 per cent and wage disbursements were 34 per cent lower.

In New York State factories the number of workers employed declined 3½ per cent from April to May, and wage disbursements were reduced 5 per cent. As in the preceding month, these reductions were in excess of the usual seasonal rate of decline and in consequence this bank's adjusted indexes of employment and payrolls decreased 2 per cent and 3 per cent, respectively. Pronounced curtailment in working forces occurred in the clothing and millinery, and textile industries, while smaller losses in employment were reported in metal and machinery plants. Compared with a year ago, the number of factory workers has decreased 19 per cent and payrolls 26 per cent. The accompanying diagram indicates the course of New York State employment for the past 14 years, after seasonal correction and also after adjustment to Federal Census data. Last August the index had reached the highest point since 1929, but since August a decline of 17 per cent has occurred and the index now stands at approximately the level of August, 1935.



Index of Factory Employment in New York State, Adjusted for Seasonal Variation (1925-27 average=100 per cent)

Chain Store Trade

In May total sales of the reporting chain store systems were about 12 per cent lower than last year, and after allowing for one less Saturday this year than last, the decrease in average daily sales amounted to about 10 per cent. Sales of the ten cent and variety, shoe, and candy chains were substantially below last year, while sales of the grocery chain stores continued to show a moderate reduction from a year ago.

Between May, 1937 and May, 1938, the reporting grocery chains recorded a substantial decrease in the total number of stores operated, with the result that, although total sales were below a year ago, sales per store in May were about 5 per cent higher than in May, 1937. The candy chains have also reduced the number of units in operation, while small increases in the number of ten cent and variety, and shoe chain units have occurred. As the result of a net decrease of about 4 per cent during the past year in the total number of chain stores in operation, the percentage decrease, for all chains combined, was smaller in average sales per store than in total sales.

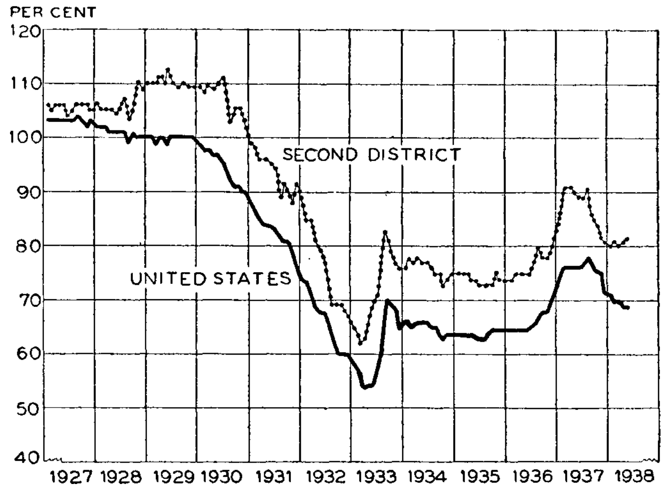
Type of store	Percentage change May, 1938 compared with May, 1937		
	Number of stores	Total sales	Sales per store
Grocery	—10.4	— 5.8	+ 5.1
Ten cent and variety	+ 1.0	—13.0	—13.9
Shoe	+ 2.1	—25.5	—27.0
Candy	— 5.9	—16.6	—11.4
All types	— 3.9	—12.1	— 8.5

Department Store Trade

Total sales of the reporting department stores in this district during the four weeks ended June 25 were about 11½ per cent lower than in the corresponding period of 1937, the declines ranging from 19 per cent in the first week to 5½ per cent in the fourth week. The progressive decline of preceding months appears to have been checked, as the June average rate of sales was slightly higher than in May.

May sales of the reporting department stores in this district were 14.7 per cent lower than in May, 1937, and even after allowing for one less Saturday this year, the decrease in average daily sales was about 12½ per cent. Sales of the reporting department stores in all localities showed substantial reductions from a year ago, and sales of apparel stores also were much lower than last year.

Locality	Percentage change May, 1938 compared with May, 1937		Per cent of accounts outstanding April 30 collected in May	
	Net sales	Stock on hand end of month	1937	1938
New York and Brooklyn	—13.9	— 9.7	51.2	49.7
Buffalo	—17.4	— 4.7	54.1	42.8
Rochester	—11.9	— 3.5	55.4	54.4
Syracuse	—16.5	— 5.6	42.9	40.4
Northern New Jersey	—18.1	— 9.9	43.7	42.5
Bridgeport	—10.3	—10.2	42.3	40.3
Elsewhere	—17.7	— 2.9	36.7	33.1
Northern New York State	—16.2	......	....	....
Southern New York State	—20.4	......	....	....
Central New York State	—19.3	......	....	....
Hudson River Valley District	—10.5	......	....	....
Westchester and Stamford	—24.6	......	....	....
Niagara Falls	—21.2	......	....	....
All department stores	—14.7	— 8.9	48.7	46.4
Apparel stores	—17.6	— 8.2	46.3	44.9



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

Department store stocks in this district at the end of May remained well below those of a year previous, but it appears that, after seasonal adjustment, the sharp downward movement during the latter part of 1937 has not been followed by further reductions since the beginning of this year. In the country as a whole stocks have continued to move somewhat lower, but at a much less rapid rate than in the last four months of 1937. The seasonally adjusted indexes for this district and for the United States are shown in the accompanying diagram. Collections of accounts outstanding in this district continued to be slower in May than a year ago, both in the department and apparel stores.

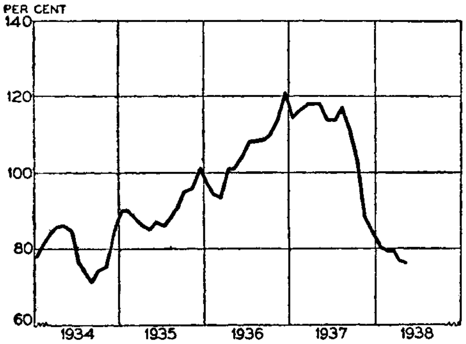
Classification	Net sales percentage change May, 1938 compared with May, 1937	Stock on hand percentage change May 31, 1938 compared with May 31, 1937
Cotton goods	+17.2	—21.0
Silverware and jewelry	+ 3.7	+ 3.4
Toilet articles and drugs	— 2.6	—12.9
Hosiery	— 6.4	—10.5
Musical instruments and radio	— 7.4	—19.6
Linens and handkerchiefs	— 9.9	— 7.7
Books and stationery	—12.1	+ 3.5
Home furnishings	—15.2	— 4.7
Women's ready-to-wear accessories	—16.9	— 8.7
Men's and Boys' wear	—18.0	—10.8
Luggage and other leather goods	—18.7	— 6.5
Shoes	—19.0	— 5.2
Men's furnishings	—19.1	— 7.1
Women's and Misses' ready-to-wear	—19.3	— 9.9
Silks and velvets	—19.7	—15.3
Furniture	—20.1	—15.5
Toys and sporting goods	—26.7	— 2.8
Woolen goods	—30.1	—10.4
Miscellaneous	—11.5	— 2.9

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

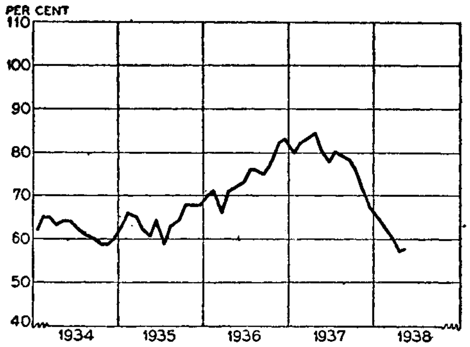
	1937	1938		
	May	March	April	May
Sales, unadjusted	93	77	88	81
Sales, seasonally adjusted	97	90	89	84
Stocks, unadjusted	92r	80	83	84
Stocks, seasonally adjusted	90r	80	81	82

FEDERAL RESERVE BANK OF NEW YORK

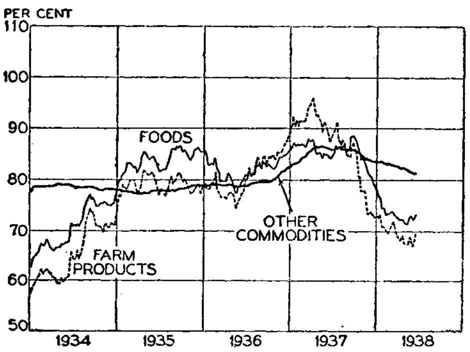
MONTHLY REVIEW, JULY 1, 1938



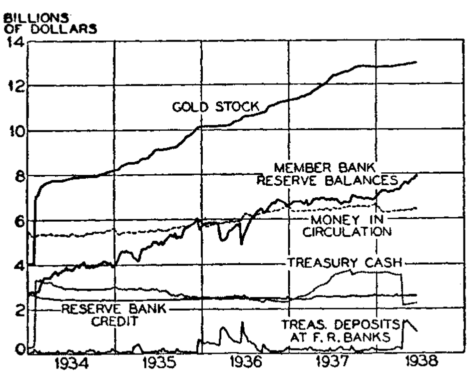
Index Number of Production of Manufactures and Minerals Combined, Adjusted for Seasonal Variation (1923-25 average=100 per cent)



Index of Freight Car Loadings, Daily Average Figures Adjusted for Seasonal Variation (1923-25 average=100 per cent)



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



Member Bank Reserves and Related Items (Latest figures are for June 15)

Business Conditions in the United States

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

In May and the first three weeks of June industrial activity showed little change from the April level. Wholesale commodity prices generally declined further, but in June wheat and cotton prices advanced and at the end of the period some other staple commodities showed increases.

Production

In May the Board's seasonally adjusted index of industrial production was at 76 per cent of the 1923-1925 average as compared with 77 in April and an average of 79 in the first quarter of the year. Steel ingot production, which in March and April had been at a rate of 33 per cent of capacity, averaged about 31 per cent in May, and automobile output also showed a decrease. Textile production increased in May. Activity at woolen mills rose sharply and there was some increase at cotton mills, while silk mills showed a decline. Changes in output in most other manufacturing industries were largely seasonal in character. Output of crude petroleum was curtailed sharply in May, and bituminous coal production declined somewhat, while anthracite production increased considerably. Lake shipments of iron ore were in very small volume, reflecting both the low rate of activity in the iron and steel industry and the large supply of ore remaining from the previous season.

In the first three weeks of June output of steel and petroleum increased somewhat, but the rate of activity in these industries remained below the average for May. Automobile production showed a further decline and continued below sales, so that stocks of new cars were further reduced.

Value of construction contracts awarded, as reported by the F. W. Dodge Corporation, showed a substantial increase in May, reflecting chiefly a marked rise in awards for publicly financed projects. Contracts for residential building increased moderately and were in about the same amount as in May a year ago. Other privately financed work remained in small volume.

Employment

Factory employment and payrolls continued to decline from the middle of April to the middle of May. There were further decreases in employment in the machinery, steel, and automobile industries and a sharp decrease in the number employed in the men's clothing industry. In most other manufacturing lines changes in employment were small in amount. The number employed at mines and on the railroads continued to decline.

Distribution

Department store sales declined considerably in May and the Board's seasonally adjusted index was at 79 per cent of the 1923-1925 average as compared with 83 in April. Sales at variety stores and by mail order houses also decreased from April to May. Reports for the first half of June indicate about the usual seasonal decline in department store sales.

The volume of railroad freight traffic showed little change in May following sharp declines in previous months.

Commodity Prices

Prices of both agricultural and industrial commodities decreased in the latter part of May. In the first three weeks of June wheat and cotton prices advanced, while prices of industrial products generally continued to decline.

Bank Credit

Reserves of member banks continued to increase in May and June, largely as the result of Treasury disbursements from its deposits with the Reserve Banks. Excess reserves increased chiefly at city banks, reflecting retirement of Treasury bills and further expansion of bankers' balances.

Demand deposits at reporting member banks in 101 leading cities increased further during the first half of June, and total loans and investments, which had declined in May, also increased, reflecting substantial purchases of United States Government obligations by New York City banks.

Money Rates

Yields on Treasury bonds declined further in the four weeks ended June 18, and those on Treasury notes reached new low levels. Rates on open market commercial paper declined somewhat about the middle of June.