MONTHLY REVIEW
of Credit and Business Conditions
Second Federal Reserve District

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Money Market in July

During the past month the volume of member bank reserves in New York City, and in the country at large, rose to new high levels and excess reserves rose to the highest points ever reached, except for a short period in the early part of December, 1935. As in the two preceding months, the increase in bank reserves during July was due chiefly to disbursements by the Government of funds derived from the desterilization of gold in April. The accompanying diagram shows the movement of excess reserves for New York City banks and for all member banks.

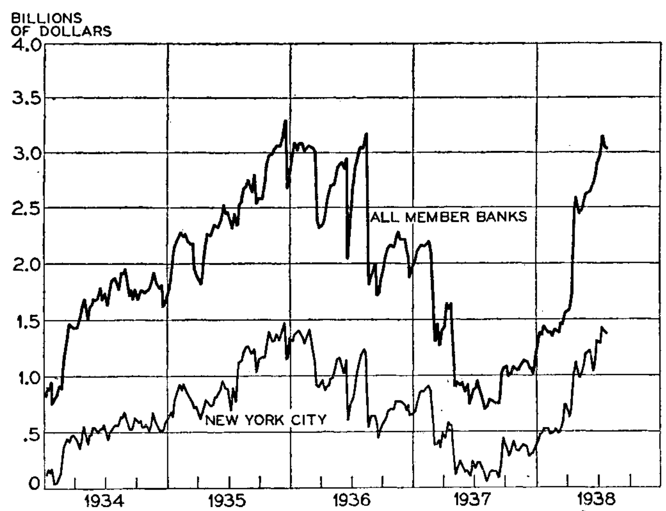
The rise in member bank excess reserves close to the previous maximum volume, despite the fact that the percentages of reserves which member banks are required to maintain against their deposits are still nearly 75 per cent above those prevailing in December, 1935, draws attention to the magnitude of the increase in bank reserves that has occurred during the intervening period. In a little over a year and a half $3,300,000,000 has been added to the supply of funds from which member bank reserves are derived. Of this amount approximately $600,000,000 has been absorbed by an increase in the volume of currency outstanding, nearly $400,000,000 has been added to Treasury cash in the Reserve Banks or elsewhere, which presumably will be added to bank reserves in coming months as Government expenditures increase, and most of the remainder has been added to bank reserves, but has been a little more than offset by increases in reserve requirements — due much more largely to the increases in the percentages of reserves which member banks are required to maintain than to expansion in bank deposits.

As the accompanying table indicates, the major factors in the increased supply of reserve funds have been the continued increases in the gold stock of this country and in the amount of "Treasury currency" (chiefly silver and silver certificates). The gold inflow recently has been much less rapid than it was a year ago, but it is noteworthy that the gold stock of this country has continued to rise gradually (and by amounts in excess of domestic production and recovery) despite the heavy withdrawals of short term foreign funds from this market during the past nine months, chiefly because of the large excess of merchandise exports over imports during the period. As a consequence, the gold stock of the United States is now just above $13,000,000,000, and represents more than one-half the total world supply of monetary gold.

Changes between December 11, 1935 and July 13, 1938
(In millions of dollars)

Sources of Funds:	
Increase in gold stock	2,912
Increase in Treasury currency	269
Federal Reserve Bank purchases of U. S. securities	134
Other Federal Reserve Bank credit	— 12
Total	3,303
Disposition of Funds:	
Increase in money in circulation	603
Increase in Treasury cash and deposits in Federal Reserve Banks	384
Increase in nonmember deposits and other Federal Reserve accounts	83
Total	1,070
Remainder added to member bank reserves	2,233
Increase in member bank reserve requirements	2,384
Net change in excess reserves	— 151

The actual amount of member bank reserves in the latter part of July was more than four times the amount just after the bank holiday in 1933, and about three and a half times the average amount in the boom years, 1928 and 1929. Had it not been for the increase in the percentages of reserves which member banks are required to maintain against their deposits, excess reserves would have risen to an amount almost double reserve requirements, and the banks would have been under far greater pressure to extend credit in amounts disproportionate to ordinary business requirements or to compete with each other for the available supply of loans and investments. Under present circumstances, with reserves already ample and money rates very low, the effect of such inten-



Excess Reserves of New York Central Reserve City Banks and of All Member Banks in the United States

sified pressure on the banks could hardly help but make more difficult the maintenance of sound banking conditions.

The expansion in member bank reserves has now been halted temporarily, largely through developments in the financing operations of the Treasury and of the Reconstruction Finance Corporation, which have affected the balance between Treasury receipts and disbursements. After reaching a maximum of $3,150,000,000 on July 13, excess reserves of all member banks were reduced $110,000,000 in the following week, as a result of the sale on July 20 of $200,000,000 of R.F.C. notes, the proceeds of which were paid into the Treasury balance with the Reserve Banks, and considerably exceeded Treasury payments for the redemption of $50,000,000 of Treasury bills on the same date and the excess of other Government disbursements over current receipts during the week. Consequently, Treasury balances in the Reserve Banks, after declining steadily from over $1,400,000,000 on May 4, to a little over $600,000,000 on July 13, rose nearly $100,000,000 during the week ended July 20.

The present Treasury program of arranging Treasury bill maturities so that $100,000,000 of three month bills will be turned over each week, calls for the sale of $100,000,000 of bills against maturities of only $50,000,000 for each of the six weeks beginning July 27, and the net receipts from these sales will go toward meeting Government expenditures during that period, and thus will tend to prevent further drawing down of Treasury balances at the Reserve Banks and consequent further increases in bank reserves. The seasonal increase in currency circulation, which usually starts with the July month end, will also operate against further expansion of bank reserves. In the September income tax period, since there are no so-called tax date Treasury bills maturing at that time, the collection of taxes will transfer funds from the banks to the Treasury account in the Reserve Banks and thus will tend to cause a temporary reduction in bank reserves. Nevertheless, the July 20 reduction and any further reductions in excess reserves that may be in prospect during the next few months are of little consequence in view of the very large volume that will remain, and eventually the excess of Government expenditures over current receipts is expected again to reduce Treasury balances in the Reserve Banks, and to increase bank reserves to new high levels.

Money Rates in New York

	July 31, 1937	June 30, 1938	July 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	¾
Bills—90 day unindorsed	$\frac{7}{16}$	$\frac{7}{16}$	$\frac{7}{16}$
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)	1.38	0.67	0.70
Average yield on Treasury bonds (more than 8 years to maturity or call date)	2.54	2.36	2.33
Average rate on latest Treasury bill sale			
91 day issue	....	0.01	0.06
142 day issue	0.37	....	....
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

Money Rates

The additions to the supply of high grade securities of short and intermediate maturities, involved in the sale of R.F.C. notes and the prospective increase in Treasury bills outstanding during the next six weeks, appear to have been one factor in a slight rise in the yields on such securities during July; the yields, however, remained extremely low. Average yields on longer term securities of the highest grade were practically unchanged during July.

Member Bank Credit

The decline in the volume of member bank loans and investments which occurred in the latter part of June, following a temporary increase early in the month in connection with June Treasury financing, continued during the first half of July, and total loans and investments of reporting member banks in New York City and elsewhere reached new low points since 1935 or early 1936. The largest reduction was in commercial and industrial loans which have followed a generally downward course since last October. There was also some further liquidation of loans by security dealers, which, however, appears to have been partly offset by some slight increase in the borrowings of security brokers accompanying the strong rise in stock prices that began on June 20. Although the item of "loans to brokers and dealers in securities" declined somewhat in July, it did not recede quite to the low point preceding the June rise. Holdings of direct obligations of the Government also declined moderately, chiefly because of a net reduction in the amount of Treasury bills outstanding.

On July 20, however, there was an increase of $150,000,000 in the total loans and investments of all reporting member banks, due to bank purchases of the R.F.C. notes mentioned above, and to purchases of State and municipal securities. The sale of $300,000,000 of Treasury bills in excess of maturities during the six weeks beginning July 27 will tend to cause some further increase in the earning assets of the banks, and except in years of declining business, a seasonal increase in commercial and industrial borrowing ordinarily begins around the first of August.

Demand deposits of the reporting banks, after temporary decreases in the latter part of June and the first week of July, caused by income tax payments, month-end and Fourth of July currency withdrawals, and loan repayments, have again turned upward, and subsequently reached the highest levels in more than a year.

Government Securities

The Treasury on July 11, on behalf of the Reconstruction Finance Corporation, offered through the Federal Reserve Banks a $200,000,000 issue of 3 year ⅞ per cent notes of the Reconstruction Finance Corporation, fully guaranteed by the United States. The issue was heavily oversubscribed and $211,450,000 of notes were allotted. Market quotations have fluctuated between a premium of ⅜ and ½ point over the issue price of par.

Treasury bill financing operations in the three weeks ended July 20 resulted in a further reduction of $150,000,000 in the volume of outstanding bills to $1,000,000,000, the smallest amount since December, 1933, but new issues between July 27 and August 31 will increase the volume to $1,300,000,000 on the latter date. The rates at which Treasury bill financing was conducted tended successively higher during July, although continuing at very low levels. The $100,000,000 issue of 91 day bills dated July 27 was awarded at an average rate of 0.059 per cent, as compared with the record low of 0.011 per cent on the similar issue of June 29.

Treasury note prices eased somewhat during the first two weeks of July, at a time when Treasury bond prices were showing moderate strength, indicated by a rise of nearly 1/4 point in the average price of all outstanding issues of more than 8 year term to call date or maturity and an advance in the 2 3/4 per cent Treasury bonds issued June 15 to 102 8/32 on July 12. Continued pressure on the Treasury note market subsequently, attributed in part to the direct financing in the market by the R.F.C., spread to Treasury bond prices, and by the 20th of the month all of the advance during the preceding part of the month had been lost. The decline in Treasury notes in this period was reflected in a rise in the average yield on maturities of 3 to 5 years to 0.73 per cent, as compared with 0.67 per cent at the end of June. After July 20, Treasury notes and bonds moved irregularly although both made slight gains on balance.

Commercial Paper and Bills

The open market rate for average grade prime 4 to 6 month commercial paper continued to prevail at 3/4 per cent during July. Some less well known paper sold at slightly higher levels, while especially choice paper was sold at 5/8 per cent on the few occasions when such names came into the market. New drawings of paper remained far short of the amount for which bank investment inquiry was made. The volume of paper outstanding through commercial paper houses declined $26,000,000 further during June to approximately $225,000,000, and was $60,000,000 less than a year ago.

The discount market for bankers acceptances remained quiet during July, due to the small quantity of bills which became available to dealers for resale. As indicated in the accompanying table, the further small decline in outstanding bills which occurred in June was ocasioned by decreases in acceptances arising out of foreign trade.

(Millions of dollars)

Type of acceptance	June 30, 1937	May 31, 1938	June 30, 1938
Import	157	81	79
Export	77	64	63
Domestic shipment	13	9	9
Domestic warehouse credit	42	49	49
Dollar exchange	1	1	1
Based on goods stored in or shipped between foreign countries	74	64	63
Total	364	268	264

Central Bank Rate Changes

Effective July 1, 1938 the discount rate of the Bank of Lithuania was lowered from 5 1/2 per cent to 5 per cent, and the rate of the Central Bank of the Republic of Turkey was lowered from 5 1/2 to 4 per cent. The last previous change at the Lithuanian bank took place on July 1, 1936 and at the Turkish bank on March 2, 1933.

Industrial Loans

Following the severe decline in business that began early last autumn, there has been a considerable increase in the number of inquiries from business concerns regarding the possibility of obtaining loans from this bank. The amendment of the Federal Reserve Act of June 19, 1934, authorized Federal Reserve Banks "In exceptional circumstances, when it appears to the satisfaction of a Federal Reserve bank that an established industrial or commercial business located in its district is unable to obtain requisite financial assistance on a reasonable basis from the usual sources" to "make loans to * * * such business * * * on a reasonable and sound basis, for the purpose of providing it with working capital", but it provided that "no obligation shall be acquired * * * with a maturity exceeding five years". As in the period just following the enactment of this legislation, it has appeared in recent discussions with prospective borrowers that in a large percentage of the cases the needs were for permanent additions to proprietary capital or for other types of loans that are ineligible for this bank under the law, or that the condition of the business of the prospective borrower was such as to provide no sound basis for bank credit.

In such cases, the inquirers were not encouraged to undertake the work of preparing the information that would be required in connection with formal applications; nevertheless, the number of applications filed during the past few months has increased to the highest point since the first half of 1936. The number of inquiries and the number of formal applications received since the legislation was enacted are shown by quarterly periods in the following table.

Quarterly period	Inquiries	Applications
1934		
June to September	1,754	277
October to December	658	258
1935		
January to March	362	161
April to June	291	114
July to September	372	124
October to December	234	87
1936		
January to March	215	72
April to June	118	55
July to September	74	28
October to December	47	28
1937		
January to March	35	20
April to June	29	14
July to September	21	8
October to December	34	10
1938		
January to March	299	42
April to June	207	50
Total	4,750	1,348

When applications for such loans are received, they are carefully analyzed by a staff assigned for that purpose, and the facts are presented to the Industrial Advisory Committee (consisting of five business men of varied interests who serve without compensation), which then recommends to the bank approval or disapproval of the applications. The final decision rests with the Board of Directors of the Federal Reserve Bank which, although it may in individual cases differ with the recommendation of the Advisory Committee, has to date approved at least as many loans as were recommended favorably by the Committee. The disposition of the applications received by this bank to date may be summarized as follows:

Applications approved and advances or commitments made	351
Applications approved but withdrawn by the applicants after approval	151
Applications approved and awaiting closing	2
Total applications approved	504
Applications declined	768
Applications withdrawn before consideration	66
Applications on hand awaiting consideration	10
Grand total	1,348

The total amount of advances and commitments made by this bank on approved applications during the four year period is approximately $24,500,000. The loans ranged in size from a $300 loan to the proprietor of a delicatessen store to a $4,200,000 loan to an automobile company.

In many cases it has been found that the loans made, either directly or in conjunction with commercial banks, have served a useful purpose in enabling the borrowers to maintain or increase employment and to rehabilitate their businesses. But although great care was exercised in the original review of the applications, and constant supervision has been maintained, it has been necessary to place a number of the loans on the "trouble" list of this bank, and in a few cases the borrowing concerns have failed despite the receipt of loans.

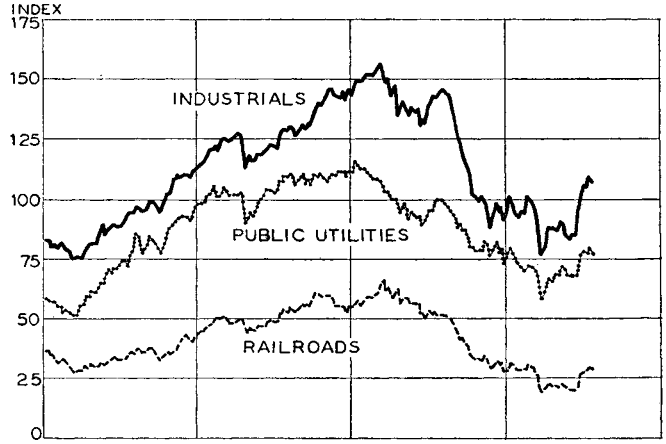
In general, the experience of this bank with this type of loan indicates that the income received, even at rates as high as 6 per cent, is not adequate to cover expenses and losses.

Security Markets

Following the sharp upswing in the latter part of June, there was little further advance in stock prices during the first half of July. However, on all except one day of the period, average prices of industrial stocks remained above the June high, and railroad and public utility shares continued above throughout the period. Around the middle of the month, the rise of stock prices was resumed although at a much less rapid rate than in the latter part of June. Industrial stocks rose 8 per cent between July 14 and July 25, railroad stocks rose 12 per cent, and public utilities 5 per cent. Near the end of the month stock prices underwent a sharp decline, from which there was a partial recovery at the month end.

Largely as a result of the June and July advances, the general average of stock prices near the end of July was about 51 per cent higher than at the low point reached at the end of March, and was at the highest point since October, 1937. The advances from the March lows in the classes of stock shown in the accompanying diagram amounted to 58 per cent for railroad shares, 51 per cent for industrials, and 43 per cent for public utilities.

The more active markets which developed in the latter part of June continued to be the rule in July. The volume of trading on four days exceeded 2,500,000 shares, and for the month as a whole averaged 1,800,000 shares per day, as compared with 1,000,000 shares in June, and 600,000 in May.



Movement of Stock Prices (Standard Statistics Company weekly indexes; 1926 = 100 per cent)

Further advances in medium and lower grade corporation bonds occurred in the first half of July when stock prices were showing little net change, and quotations for these bonds continued to rise until the last few days of the month. For the month as a whole, the average price of bonds rated Baa by Moody's Investors Service rose 5 points to a level 16 points above the year's low reached on March 31; 12 points of this rise have occurred since June 18. Measured from the year's lows, railroad bonds of this grade, which had previously suffered the heaviest declines, have shown recoveries of about 18 points, public utility issues 16 points, and industrials 8 points.

Among the best grade corporation bonds—those rated Aaa—railroad and industrial issues continued during July the advance of the second half of June, while public utility bonds continued to hold steady. Toward the end of July, Aaa industrial bonds were close to the January, 1938 highs and public utility bonds were about 1 point above their February, 1938 highs, while railroad bonds averaged some 4½ points lower than in January, 1938. As compared with the January, 1937 peak of high grade bond prices, both industrial and public utility averages currently are about 1 point higher, but the railroad average is 9 points lower.

New Financing

During July corporate security financing, according to preliminary data, amounted to about $150,000,000, of which some $105,000,000 represented the raising of funds for new capital purposes. The past month's total was less than the amount of corporate issues offered during June, but nevertheless continued well above the amount in earlier months of 1938, and was somewhat larger than the total for July, 1937. The high grade issues offered during July met with a ready market notwithstanding the very low interest rates on these obligations. Some financing was postponed from July until August, which together with issues already in registration with the Securities and Exchange Commission or about to go into registration, indicates that August will be an active month in the new issues market—probably more active than July.

The largest flotation in July was the Standard Oil Company of New Jersey financing, consisting of $50,000,000 of 2¾ per cent debentures of 1953, which were offered at 99, and $35,000,000 of 1¾-2½ per cent serial notes of 1943-47, $4,000,000 of which was placed privately. The entire proceeds of these issues will be used for new capital expenditures. Southwestern Bell Telephone Company sold $30,000,000 of 3 per cent first and refunding mortgage bonds of 1968, of which $28,900,000 was offered publicly at 100 and the remainder taken by internal pension funds. Two other sizable corporate issues were offered during the month: $10,000,000 Crown Cork and Seal Company 4½ per cent debentures of 1948, priced at 99, and $7,500,000 Industrial Rayon Corporation 4½ per cent first mortgage sinking fund bonds of 1948, also offered at 99.

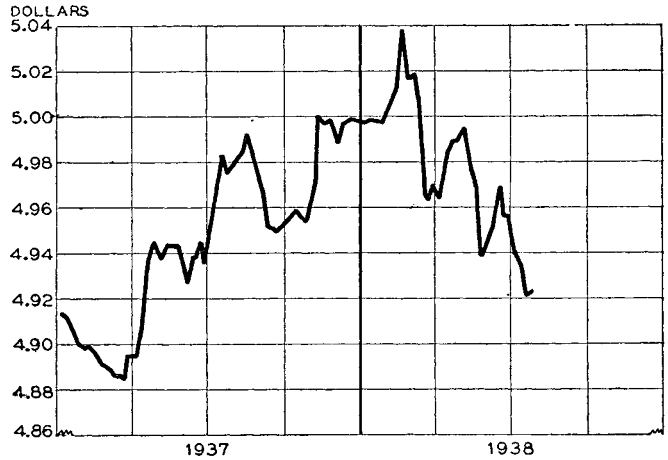
State and municipal bond issues during July declined to about $35,000,000, as compared with about $145,000,000 in June and $85,000,000 in July, 1937. Included in the past month's total were $8,100,000 of securities acquired by security dealers from the Reconstruction Finance Corporation and publicly reoffered during July, of which the largest portion was $5,100,000 of New York City 4 per cent bonds of 1939-64.

Short term borrowing during July included $100,000,000 of New York State 7 month 0.25 per cent notes which were allotted to ninety-five banks and bond houses in the State, and two $10,000,000 issues of New York City special revenue bills which were sold to twenty-six banks. The monthly financing by the Federal Intermediate Credit Banks amounted to $25,000,000, all for refunding.

Foreign Exchanges

During July, continued strength in the dollar carried the pound to the lowest level, and the sterling price of gold in London to the highest quotation, since April, 1937. From $4.98¼ on June 15 and $4.95⅝ on June 30, the pound fell to $4.91 9/16 on July 19, before recovering to $4.92 11/16 on July 26. From this level it declined to $4.91⅜ at the month end. The sterling price of gold at fixing rose from 140s 9d on July 1 to 141s 6d on July 20, but the dollar equivalent declined from $34.88 to $34.78¼ over the same period. Although the London gold price did not fall quite to the theoretical gold shipping point to the United States, two shipments aggregating $2,263,000 were arranged near the end of the month. Quotations for the French franc and the guilder fluctuated in rough correspondence with the pound, while the belga and the Swiss franc declined against the dollar in approximately the proportions of the fall in the dollar equivalent of the London gold price.

Like the similar fall this year from $5.01 in April to $4.94 in May, the June-July decline in sterling was associated with political tension in Europe and an increase in gold hoarding. But in contrast with the earlier movement, the current appreciation of the dollar was stimulated by the improvement in the outlook for business in the United States, and by the subsidence of rumors of dollar devaluation and the substitution of equally unfounded rumors that the sterling-dollar rate would be provisionally stabilized at the pre-1931 $4.8665 parity under the forthcoming Anglo-American trade



Sterling Exchange Quotations in the New York Market (Latest figure is for July 27)

agreement. In neither period did any marked change occur in the flow of funds between the United States and abroad since additions to foreigners' holdings of dollars were continuously absorbed by dollar expenditures for foreign net imports of merchandise from this country.

The French franc had a minor decline in early July when the rate weakened from 177⅞ francs per pound on July 7 to 178 11/16 on July 12, as the French Stabilization Fund, according to press reports, was subject to pressure. With the announcement in the middle of the month that a 75,000,000 guilder loan had been contracted for the French railways, however, the rate firmed to 178 5/16. Some easing of the tension in Europe, and some improvement in the French balance of payments also gave support to the franc, which closed the month about ¼ higher. Quotations on three month forward contracts eased from a discount equivalent to 3 per cent per annum on July 7, to the equivalent of 7 per cent per annum discount on July 12, but recovered to 6 per cent near the end of the month.

Canadian exchange, which had been under heavy pressure since March, recovered sharply during July, moving from a discount of 15/16 per cent at the first of the month to a discount of ¼ per cent near the month end. The completion of mid-year debt service operations lifted pressure from the exchange, and support was given by the expenditures of American tourists in Canada.

Gold Movements

Preliminary figures for imports of gold affecting the United States gold stock in July indicate that receipts at New York were limited to $1,000,000 from British India and $100,000 from Australia. On the West Coast, however, $28,800,000 was received from Japan, $2,500,000 from Australia, and $1,200,000 from Hong Kong. There was also a gain to the gold stock through the release of $2,200,000 from foreign earmarked holdings at the Federal Reserve Bank of New York and through receipts of newly mined and scrap gold. As a result of all these transactions the gold stock increased approximately $60,000,000 during July.

Employment and Payrolls

Owing to a further reduction in factory employment, the Bureau of Labor Statistics estimates that the number of workers engaged in nonagricultural pursuits declined by approximately 100,000 in June. The reduction, however, was only about one-third as large as that which occurred in May. Changes from May to June in employment outside manufacturing were relatively small and largely seasonal in character.

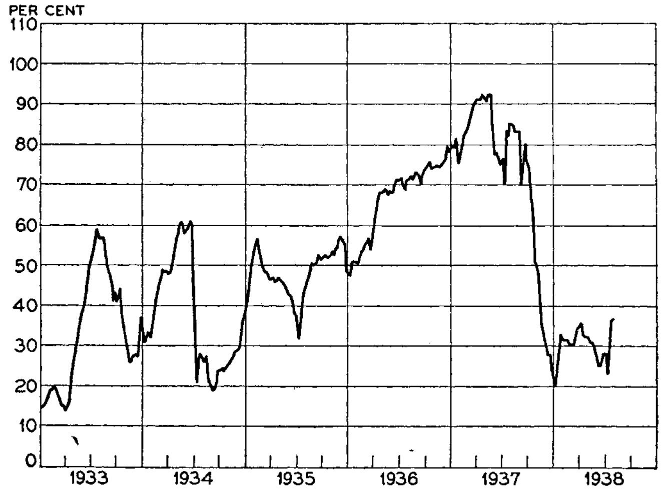
The decline in factory employment amounted to 2 per cent and wage disbursements decreased 3 per cent; both declines were more than seasonal. The reductions in working forces continued to be more pronounced in the durable goods industries, particularly in the manufacture of steel, machinery, and automobiles. Among the nondurable goods industries, employment at food manufacturing plants and woolen mills increased somewhat more than is usual at this time of the year. Compared with a year ago factory employment was 25 per cent lower and wage disbursements were down 35 per cent.

New York State factory employment declined about 2 per cent from May to June and payrolls about 1 per cent. As in the two preceding months, these reductions were in excess of the average seasonal decrease. The most marked reductions in employment were in the clothing and millinery, and metals and machinery industries, while gains were reported in the food and tobacco, fur, leather and rubber, and textile industries. Compared with a year ago, the curtailment of working forces has amounted to 20 per cent and payrolls have been reduced 27 per cent.

Production and Trade

The general level of business operations appears to have been maintained better than usual between June and July. Automobile production tapered off in the latter part of the month as some assembly lines were stopped to retool for 1939 models, but reports indicated that cotton textile mill activity continued near the June level instead of declining as in other years, and electric power production, bituminous coal mining, and railway freight traffic increased over June. Steel production, which ordinarily declines in July, displayed a rising tendency following Independence Day shutdowns. As indicated in the accompanying diagram, steel mill operations at the end of July were estimated at 37 per cent of capacity, the highest rate since last November. Although price reductions and adjustments of basing point differentials were reported to have retarded steel buying temporarily pending study of the new price structure, expansion in sales was indicated during the latter part of the month. Department store sales showed less decline from June to July than in most years.

There was no material change in the general level of production and trade between May and June. Seasonal declines occurred in steel production and automobile assemblies, and there were also reductions in copper output, zinc smelting, and shoe production. On the other hand, the usual seasonal decline in cotton textile mill operations did not occur; wool and silk mills were



Steel Mill Activity (Ingot output expressed as percentages of capacity)

somewhat more active; and bituminous coal mining, lead output, and plate glass production expanded.

Railway loadings of merchandise and miscellaneous freight were virtually unchanged between May and

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

	1937	1938		
	June	April	May	June
Industrial Production				
Steel	94	39	36	36
Copper	117	63	58	49*p*
Passenger cars	96	38	35	31
Motor trucks	108	48	46	46
Bituminous coal *r*	87	68	61	63*p*
Crude petroleum	96	91	83	79*p*
Electric power	97	83	84*p*	84*p*
Cotton consumption	116	70	70	74
Wool consumption	114	48	58	63*p*
Shoes	115	104	104*p*	90*p*
Meat packing	76	79	80	78
Tobacco products	82	88	87	82
Cement	55	53	54	50
Machine tool orders*	171	78	61	61
Employment				
Employment, manufacturing, U. S.	103	80	79	77*p*
Employee hours, manufacturing, U. S.	94	64	63	61*p*
Construction				
Residential building contracts	35	24	30	31
Nonresidential building and engineering contracts	65	45	63	47
Primary Distribution				
Car loadings, merchandise and misc.	89*r*	68	69	69
Car loadings, other	93	63	61	63
Exports	87	92	90	85*p*
Imports	109	61	59	63*p*
Distribution to Consumer				
Department store sales, U. S.	91*r*	81	77*r*	80*p*
Department store sales, 2nd District	87*r*	78	75	79
Chain grocery sales	92	99	101	100*p*
Other chain store sales	97	91	86	88
Mail order house sales	103	91	90	86
New passenger car registrations	91	47	43	39*p*
Money Payments				
Bank debits, outside New York City	66	56	57	59*p*
Bank debits, New York City	36	35	34	39*p*
Velocity of demand deposits, outside New York City**	68	61	61	60
Velocity of demand deposits, New York City**	43	40	38	42
General price level‡	162	152	152	152*p*
Cost of living‡	151	149	148	149*p*
Composite index of wages†	109	110	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.

June, while movements of bulk freight increased. Sales of department stores and chain stores other than grocery gained from May to June after allowance for seasonal factors, but mail order house sales and registrations of new passenger cars were smaller than in May, and advertising lineage was reduced more than is usual.

Building

The daily rate of construction contract awards in the New York and Northern New Jersey area declined 40 per cent from May to June. Residential contracts showed an increase of 17 per cent, but contracts for heavy engineering work, which had been especially large in May, were reduced by 72 per cent. Compared with June, 1937, total construction contracts were 26 per cent lower. Residential contracts were at approximately the same level as a year ago, but the other major classifications showed reductions.

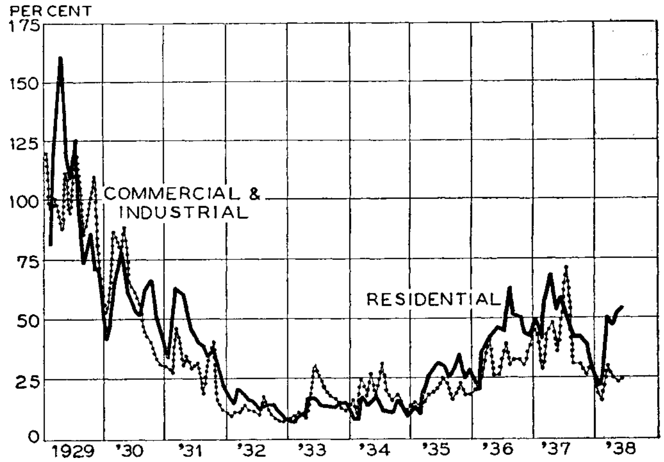
Percentage Change in Average Daily Contracts

	N.Y. and Northern N.J.		37 States	
	June, 1938 compared with June, 1937	Jan.-June 1938 compared with Jan.-June 1937	June, 1938 compared with June, 1937	Jan.-June 1938 compared with Jan.-June 1937
Building				
Residential	+ 1	—27	— 8	—23
Commercial and industrial	—56	—43	—52	—47
Public purpose*	— 8	+ 1	—19	+ 5
All building	—16	—23	—24	—23
Engineering				
Public works	—22	+18	+ 7	+20
Public utilities	—90	+92	—70	— 3
All engineering	—46	+48	—16	+13
All construction	—26	— 3	—21	—13

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

For the 37 States covered by the F. W. Dodge Corporation report, the daily rate of contract awards in June was 15 per cent below the May average. Residential and nonresidential building contracts remained virtually unchanged but the total was affected by the large reduction in heavy engineering work in the New York District. The June contract total was 21 per cent below a year ago, as all of the major classifications with the exception of public works registered declines. However, privately financed residential work, which at present constitutes the greater part of all residential work, increased 8 per cent over June, 1937.

In the accompanying diagram a comparison is made between residential building and commercial and industrial building since 1929. Both types of building in the period from 1935 to 1937 showed substantial increases from the extremely low levels of the three preceding years; the rise in residential building during 1935 and 1936 was more pronounced than the increase in commercial and industrial building, but the recovery in the latter classification continued into the early summer of 1937. Subsequently both types of building declined sharply, but residential building, stimulated by the liberalization of Federal Housing Administration terms and other reductions in cost, has had a considerable recovery this year while commercial and industrial building has remained comparatively low.

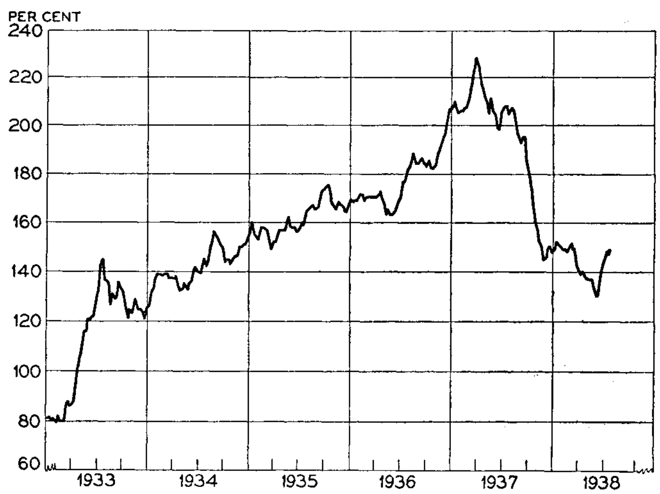


Value of Contracts Awarded for Residential and for Commercial and Industrial Building in 37 States (F. W. Dodge Corporation data converted to a 1929 base)

Data for the first half of July indicate some further decline in the daily rate of total construction awards. Residential construction increased by a small amount, but there was a pronounced reduction in nonresidential building contracts, and heavy engineering awards also were lower. Residential building activity recently has proceeded at a slightly higher rate than a year ago.

Commodity Prices

With the exception of wheat and cotton, which were influenced by crop developments, prices of most actively traded commodities showed net advances for July. The extent of the recovery since early June is indicated in the accompanying diagram, which is based on Moody's Investors Service index of 15 raw products. At the beginning of June this index was about 43 per cent below the April, 1937 high point, indicating the cancellation of about two-thirds of the previous advance from the 1933 low. The general average of prices of actively traded commodities has shown a rather steady advance during the past two months, and at the end of July the index was about 14 per cent above the June 1



Movement of Prices of Actively Traded Commodities (Moody's Investors Service index; December 31, 1931 = 100 per cent)

low. The current level, however, is about 35 per cent below the April, 1937 peak.

Among the individual commodities, the most pronounced advance during the past month occurred in prices of scrap steel. The quotation at Pittsburgh, which reached a low of $10.75 a ton during May and early June, rose to $15.25 and at Chicago the price increased to $12.75 a ton, as compared with the recent low of $10.25. Gains were shown also in prices of nonferrous metals during the past month. Spot copper, which had held at 9 cents a pound between the middle of May and the end of June, was raised in five successive steps to 10⅛ cents a pound. The price of lead increased 15 points further during July to 4.90 cents a pound, zinc advanced an additional 25 points to 4.75 cents a pound, and a further advance of about ⅝ cent brought the price of tin to 43½ cents a pound. Crude rubber rose 1 9/16 to 16 5/16 cents a pound, the highest level since October, 1937, and net gains also occurred in the prices of livestock, hides, sugar, wool, and corn.

Wheat prices moved irregularly during the early part of July, but subsequently turned downward, and rather sizable declines were shown for the month as a whole. The cash quotation for the Number 1 grade at Minneapolis declined 13⅜ cents during July to 84⅛ cents a bushel, 41¾ cents below the high reached last January, and the lowest quotation since May, 1934. The decline in the latter part of the month reflected favorable weather reports and lack of any substantial increase in foreign demand. On July 14 the Government wheat loan program was announced, with loan rates placed between 59 and 60 cents a bushel for wheat at the farm. On a basis of 52 per cent of the parity price, this rate represented the minimum authorized in the Agricultural Adjustment Act of 1938.

Spot cotton rose to 9.21 cents a pound on July 6, but later moved irregularly lower to close the month at 8.67 cents, down slightly from the end of June.

Foreign Trade

Exports and imports of merchandise during June were smaller than in the preceding month, and were also below the totals for the corresponding month a year ago. Exports, valued at $233,000,000, showed a 12 per cent decline from a year ago, while imports of $146,000,000 were only about half their June, 1937 value. Calculations made by the Department of Commerce, allowing for price declines during the past year, indicate that the total quantity of American goods shipped abroad was substantially the same as in June, 1937, but that in the case of imports a large reduction occurred in aggregate quantity as well as in value.

For the first six months of 1938, exports totaled $1,592,000,000 and imports $961,000,000. The resulting excess of exports of $631,000,000, which is in contrast with an excess of imports of $147,000,000 in the first six months of 1937, was the largest export balance for the corresponding period of any year since 1921.

Exports of agricultural products as a group in the first six months of this year were 29 per cent larger in value than in the corresponding period in 1937, while imports of this classification were 47 per cent smaller. Exports of nonagricultural products declined slightly, while imports of this type of goods decreased in value by more than one-third. Among the agricultural commodities, exports of crude foodstuffs, chiefly grains, were nearly seven times the small value of a year ago, and imports of such products decreased almost 50 per cent. The important group of exports of finished manufactures, which are principally of nonagricultural origin, was somewhat larger than in the first half of 1937, owing notably to increases in shipments of aircraft, agricultural and industrial machinery, and gasoline. Imports of finished goods, on the other hand, were 25 per cent smaller in value than a year ago.

Department Store Trade

A further increase during July in the seasonally adjusted index of department store sales in this district is indicated by figures for the four weeks ended July 23, which appear to have declined less than usual from the June rate. During this four week period, sales were about 7 per cent below the corresponding period of 1937.

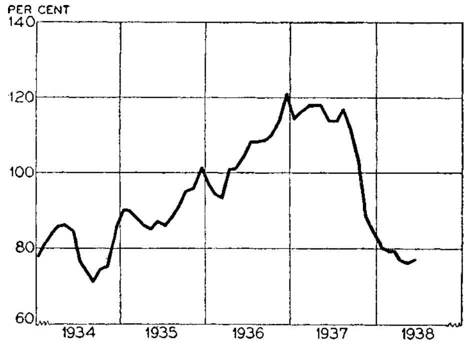
In June total sales of the reporting department stores in this district were about 9½ per cent lower than last year, and apparel store sales were about 14 per cent less, both smaller declines than in May.

Stocks of merchandise on hand in the department stores declined more than seasonally during June, and, at retail valuation, were 11.6 per cent lower at the end of the month than at the end of June, 1937; apparel store stocks were 10.4 per cent lower. At this time last year stocks were being maintained at considerably higher levels than in the preceding year. Collections of accounts outstanding continued to be slower than a year ago, both in the department and apparel stores.

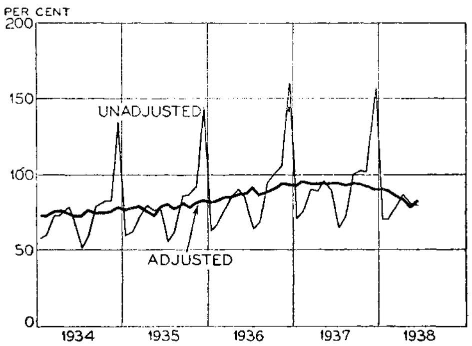
Locality	Percentage change from a year ago			Per cent of accounts outstanding May 31 collected in June	
	Net sales		Stock on hand end of month		
	June	Jan. to June		1937	1938
New York and Brooklyn	−9.0	−7.6	−12.7	50.5	49.9
Buffalo	−15.1	−11.1	−6.2	47.4	42.5
Rochester	−1.9	−2.3	−4.1	58.6	52.9
Syracuse	−12.4	−6.8	−3.5	37.2	40.1
Northern New Jersey	−10.4	−9.6	−13.0	45.2	43.6
Bridgeport	−13.6	−8.2	−12.5	41.9	38.8
Elsewhere	−12.5	−7.7	−5.0	39.4	35.2
Northern New York State	−14.6	−6.1	......	....	....
Southern New York State	−14.0	−12.1	......	....	....
Central New York State	−14.0	−8.2	......	....	....
Hudson River Valley District	−6.3	−2.9	......	....	....
Westchester and Stamford	−16.3	−9.7	......	....	....
Niagara Falls	−19.5	−10.2	......	....	....
All department stores	−9.4	−7.8	−11.6	48.3	46.7
Apparel stores	−13.8	−11.8	−10.4	45.2	42.1

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

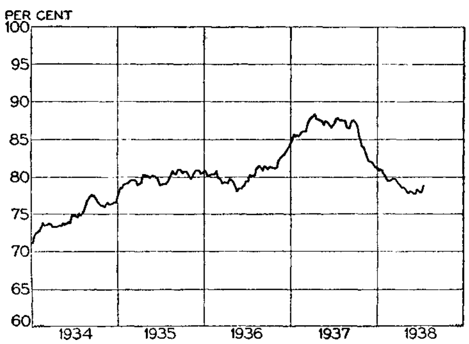
	1937	1938		
	June	April	May	June
Sales, unadjusted	94	88	81	85
Sales, seasonally adjusted	97	89	84	89
Stocks, unadjusted	85	83	84	75
Stocks, seasonally adjusted	89	81	82	79



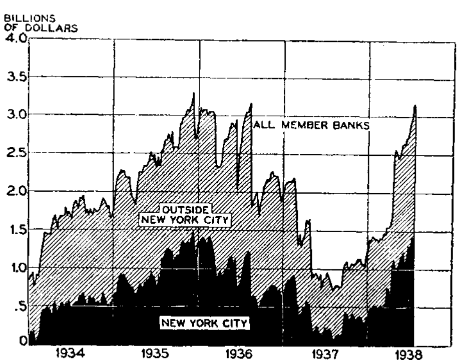
Index Number of Production of Manufactures and Minerals Combined, Adjusted for Seasonal Variation (1923-25 average = 100 per cent)



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



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



Excess Reserves of Member Banks (Latest figures are for July 20)

Business Conditions in the United States

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

INDUSTRIAL activity showed little change in June and increased in the first three weeks of July, although there is usually a considerable decline at this season. Prices of most staple commodities advanced sharply in the latter part of June and early July and there were substantial increases in prices of stocks and lower grade bonds.

Production

Volume of industrial production, as measured by the Board's seasonally adjusted index, was at 77 per cent of the 1923-1925 average in June as compared with 76 in May and an average of 79 in the first quarter of the year. Available data indicate that in July the index will show a considerable rise.

In June activity in the textile industry increased, reflecting chiefly a further rise at woolen mills. Output at cotton and silk mills, which usually declines at this season, showed little change. Shoe production declined, following a considerable increase earlier in the year.

Automobile output decreased further in June; sales of new cars continued in excess of production, however, and stocks were further reduced. Steel production declined seasonally in June, and lumber production showed little change, although some increase is usual. Output of plate glass rose sharply from an exceptionally low level. Coal production remained in small volume in June, while output of crude petroleum, which had been sharply reduced in May, declined somewhat further.

In the first three weeks of July activity at steel mills increased, although there is usually a decline in that period, and in the third week of the month ingot production was estimated at 36 per cent of capacity as compared with an average rate of 28 per cent in June. Crude petroleum output also rose sharply, reflecting chiefly a return to production on a six day week basis in Texas. Automobile production declined seasonally.

Value of construction contracts awarded, as reported by the F. W. Dodge Corporation, showed a decline in June, following a considerable increase in May. Changes in both months reflected chiefly fluctuations in awards for publicly financed construction. Awards for private residential building were maintained in June at about the same daily rate as in May, although there is usually some decline at this season, and were in slightly larger volume than a year ago. Other private construction work remained at recent low levels.

Employment

Factory employment and payrolls decreased further from the middle of May to the middle of June. Employment in the automobile, steel, machinery, and clothing industries continued to decline, while at woolen mills there was an increase and in most other manufacturing lines changes were small. In trade employment was reduced, while in other nonmanufacturing industries changes in the number employed were largely seasonal.

Agriculture

A total wheat crop of 967,000,000 bushels was indicated by July 1 conditions, according to the Department of Agriculture. A crop of this size would be considerably larger than average and a Government program was announced for loans at close to current market prices. Cotton acreage on July 1 was estimated at 26,900,000 acres as compared with 34,500,000 acres last year when, with exceptionally high yield per acre, a record crop was harvested. Production estimates for most other major crops were slightly under the large harvests of last season.

Distribution

Distribution of commodities to consumers was maintained in June at about the May level, although a decline is usual at this season. Sales at department and variety stores showed little change and mail order sales increased. In the first half of July department store sales decreased less than seasonally.

Freight car loadings showed little change from May to June and were slightly above the low level of April.

Commodity Prices

Prices of industrial materials, particularly rubber, hides, nonferrous metals, and steel scrap, showed advances from the middle of June to the third week of July, and there were also increases in prices of livestock and products. Wheat prices declined, following a rise early in June. Prices of iron and steel were reduced and there were also declines in some other industrial products.

Bank Credit

Excess reserves of member banks increased substantially in June and the first half of July, rising to above $3,000,000,000, as compared with $1,730,000,000 just prior to the reduction in reserve requirements the middle of April. The largest gain in excess reserves occurred at city banks through the retirement of Treasury bills and the continued growth of bankers' balances.

Total loans and investments of reporting member banks in 101 leading cities, which had increased sharply in the first week of June, declined during the remainder of June, reflecting largely redemption of Treasury bills held by New York City banks and a decrease in loans to security brokers and dealers. During the first three weeks of July total loans and investments at reporting banks showed little net change.

Money Rates

Rates on Treasury bills and notes were slightly firmer in July but continued at exceedingly low levels. Yields on Treasury bonds showed little change.