

MONTHLY REVIEW

of Credit and Business Conditions

Second Federal Reserve District

Federal Reserve Bank, New York

October 1, 1938

Money Market in September

Developments in Europe were the dominant influence in the New York money market during September, the day-to-day changes in the European situation being immediately reflected in the foreign exchange and security markets.

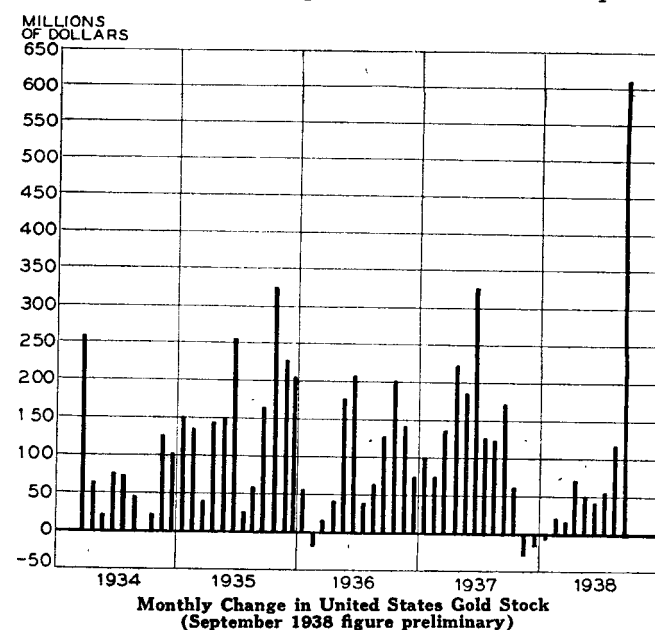
The flight of funds from Europe to the United States, which was commented upon last month, increased in volume during the first half of September with the accentuation of fears of war over the Czechoslovakian situation, and caused pronounced weakness in sterling and other European currencies and a greatly accelerated flow of gold to this country. The movement of European funds to the United States came almost to a halt, temporarily, on September 19, when there appeared to be an improved prospect for avoidance of war in Europe, but subsequently, when a peaceful settlement of the Czechoslovakian problem seemed more remote, there was a resumption of the heavy flow of funds to this country. The movement was checked again near the end of the month when the announcement of the Munich conference, and then of the agreement reached there, gave promise that a general European war would be averted. The gold movement in the latter part of the month was restricted by difficulty in obtaining war risk insurance on gold shipments, but gold previously acquired abroad for shipment to this country continued to be received in substantial volume. Most of the flow of European funds was through the London market and the bulk of gold engagements also was made in London.

As the accompanying diagram indicates, the increase in the gold stock of the United States during September, amounting to more than \$600,000,000, was the largest monthly increase since February, 1934, when the gold stock was revalued at \$35 an ounce. At the end of September this country's gold stock was over \$13,700,000,000, or between 55 and 60 per cent of the known world supply of gold held by central banks and governments.

Payments for incoming gold continued to add to the surplus funds of banks in this country, and excess reserves of all member banks on September 14 rose to \$3,130,000,000, or close to the highest point reached since the first increase in member bank reserve requirements became effective in August, 1936. Nevertheless, uncertainty as to the effects on the business and credit situation of a possible war in Europe served to bring about a fall in security prices and a corresponding

increase in long term money rates, and as a consequence some retardation of the flow of funds into productive use. The average price of Government bonds maturing or callable in more than 8 years declined nearly 1½ points between September 7 and 17; high grade corporation bonds, after holding firm for a time, also receded somewhat; and stocks and lower grade bonds declined considerably. The unsettlement of the security markets had its usual effect of inducing a more cautious attitude toward the flotation of new securities; some issues that had been scheduled for early public offering were at least postponed.

In the week ended September 21, Treasury financing and income tax collections affected the banking position somewhat. Payments for the new Treasury bonds and notes issued on September 15, together with income tax collections, caused a reduction of about \$400,000,000 in member bank reserves, despite continued large gold imports, but excess reserves remained very large, amounting to approximately \$1,300,000,000 in New York City, and \$2,740,000,000 for the country as a whole. Indicative of the predominant influence of the European situation on our markets, however, this fairly large reduction in the volume of excess bank reserves was followed for a time by substantial recoveries in stock and bond prices, which received their impetus from the then improved



outlook for a peaceful settlement of the Czechoslovakian problem. During the following week, renewed war fears were accompanied by fresh weakness in the security markets, which reached a climax early on the 28th when the European situation appeared to be most critical. The movement was again reversed in the closing days of the month when developments leading to a peaceful settlement seemed once more to be in prospect.

MONEY RATES

Accompanying the weakness in Government bond prices in the first half of the month, yields on Treasury notes advanced, and the average rates at which the Treasury bill issues were sold rose well above the rates that had prevailed for a number of weeks previous. Treasury note yields in the latter half of the month fluctuated with yields on Treasury bonds. For the month as a whole there was a net rise of about 0.09 per cent in the average yield on Treasury notes. Other principal short term money rates were unaffected; in fact commercial paper rates at the end of September reached a new low level.

Money Rates in New York

| | Sept. 30, 1937 | Aug. 31, 1938 | Sept. 29, 1938 |
|--|-----------------|-----------------|-------------------------------|
| Stock Exchange call loans..... | $1\frac{1}{4}$ | $1\frac{1}{4}$ | $1\frac{1}{4}$ |
| Stock Exchange 90 day loans..... | $*1\frac{1}{4}$ | $*1\frac{1}{4}$ | $*1\frac{1}{4}$ |
| Prime commercial paper—4 to 6 months | 1 | $\frac{3}{4}$ | $\frac{5}{8}$ — $\frac{3}{4}$ |
| Bills—90 day unindorsed..... | $\frac{1}{8}$ | $\frac{1}{8}$ | $\frac{7}{16}$ |
| Customers' rates on commercial loans (Average rate of leading banks at middle of month)..... | 1.58 | 1.63 | 1.63 |
| Average yield on Treasury notes (3-5 years)..... | 1.45 | 0.75 | 0.84 |
| Average yield on Treasury bonds (more than 8 years to maturity or call date)..... | 2.65 | 2.34 | 2.38 |
| Average rate on latest Treasury bill sale 91 day issue..... | 0.38 | 0.05 | 0.14 |
| 273 day issue..... | ..... | ..... | ..... |
| Federal Reserve Bank of New York re- discount rate..... | 1 | 1 | 1 |
| Federal Reserve Bank of New York buying rate for 90 day indorsed bills.. | $\frac{1}{2}$ | $\frac{1}{2}$ | $\frac{1}{2}$ |

* Nominal

MEMBER BANK CREDIT

Total loans and investments of weekly reporting member banks increased substantially during the four weeks ended September 21, and reached the highest point since the latter part of January. The largest element in the increase was an expansion of about \$400,000,000 in holdings of Government securities, reflecting chiefly purchases of the new Treasury issues of September 15. Investments in Government guaranteed and State and municipal securities also increased. Borrowings from the New York City banks by security brokers and dealers showed the usual increase preceding the Treasury financing of September 15, but subsequently declined again and showed only a small increase for the four week period as a whole. Commercial loans in New York City banks showed an unseasonal decline, at least part of which appears to have been due to the repayment of loans by using part of the proceeds of new security issues, but in other principal cities throughout the country a further moderate increase in commercial loans was reported.

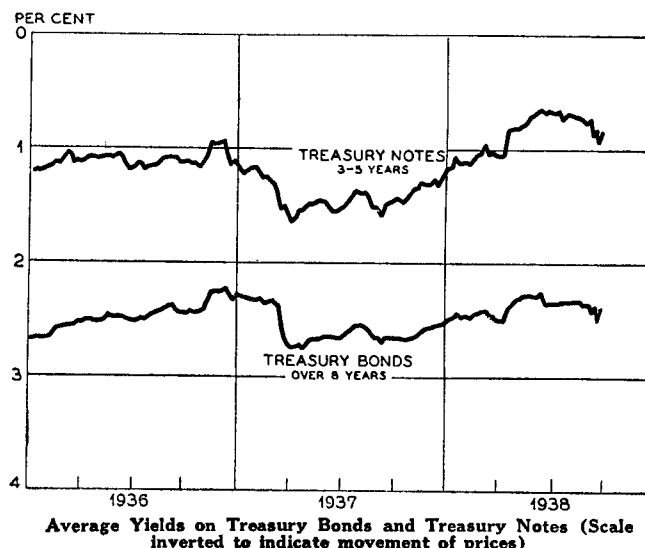
Demand deposits in the reporting banks continued to increase until September 14, and on that date were the largest since the spring of 1937, but in the following week there was a fairly substantial reduction, which was

attributable chiefly to income tax payments and to payments for Government securities issued on September 15.

GOVERNMENT SECURITIES

The Treasury's quarterly financing program, which was announced on September 8, involved the cash sale of \$462,000,000 of $2\frac{1}{2}$ per cent Treasury bonds of 1950-52 and \$342,000,000 of $1\frac{1}{8}$ per cent Treasury notes due June 15, 1943 (the latter an additional amount of the issue originally sold in June), and the issuance of \$397,000,000 of the new bonds and \$27,000,000 of the notes in exchange for Treasury notes due December 15 of this year. Although there were heavy oversubscriptions to the Treasury's cash offerings of these securities, and both the bonds and the notes were quoted at substantial premiums immediately after the announcement of the offering, these issues were especially vulnerable when the Government security market weakened owing to unsettlement abroad. Declines in these issues were accompanied by declines in other Treasury issues and on September 12 when the situation abroad turned markedly more critical there was a reduction of more than $\frac{1}{2}$ point in the average price of Treasury bonds, following a decline of slightly less than $\frac{1}{2}$ point between September 8 and 10. A further decline of about $\frac{1}{2}$ point occurred between September 14 and 17, but in the succeeding three days ended September 21, when developments abroad took a favorable turn, 1 point of the preceding $1\frac{1}{2}$ point drop was recovered. Renewed weakness through September 27 carried the average price of Treasury bonds down to a level slightly below that reached on September 17, and about 2 points below the August high. However, with the favorable turn of events abroad on September 28 a recovery in Treasury bond prices began and by the close of the month a total recovery of more than 1 point had occurred.

The extent of the movement during the European crisis period of Treasury bonds and also of Treasury notes is indicated in the accompanying diagram. The average yield on Treasury bonds of more than 8 year term to call date or maturity went from 2.34 per cent at the end of August to 2.48 per cent on September 27 and then declined to 2.38 per cent, and the average yield on



Treasury notes of 3 to 5 year maturity rose from 0.75 per cent to 0.93 per cent, afterwards declining to 0.84 per cent.

Accompanying the rise in yields on intermediate and long term Treasury obligations, some stiffening of the rates at which weekly issues of Treasury bills were sold by tender occurred during September. The issue dated September 28 was awarded at an average rate of 0.142 per cent, which compares with 0.047 per cent on the issue of August 31. During this same period, the Treasury bill rate in London rose from 0.508 per cent to 0.979 per cent. The four \$100,000,000 issues of United States Treasury bills floated during September replaced maturities of corresponding amounts.

COMMERCIAL PAPER AND BILLS

The amount of commercial paper being sold at $\frac{5}{8}$ per cent became an increasingly important part of dealers' total sales in September, and the prevailing rate for average grade prime 4 to 6 months' commercial paper therefore was reduced to a range of $\frac{5}{8}$ - $\frac{3}{4}$ per cent, as against $\frac{3}{4}$ per cent previously. Paper of nationally known concerns of the best credit ratings, when it became available, was sold at $\frac{1}{2}$ per cent in a limited number of cases. During September the total supply of new paper received by dealers for resale remained small, although somewhat more diversified than in some previous months. Bank investment demand for business notes continued well in excess of dealers' current offerings. The outstanding amount of commercial paper reported by commercial paper houses amounted at the end of August to \$209,400,000, or approximately 1 per cent less than in July and 36 per cent less than in August, 1937.

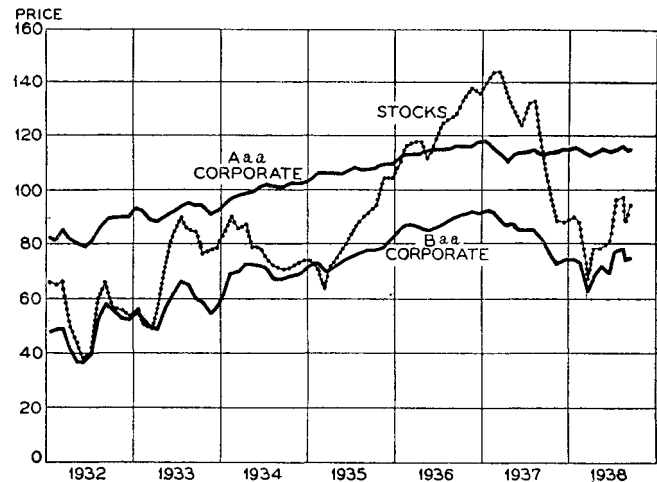
The bill market in September remained dull because of the limited amount of acceptances currently flowing into dealers' hands for resale. The volume of bankers acceptances outstanding at the end of August totaled \$258,000,000, an amount \$7,000,000 smaller than a month ago and \$86,000,000 below a year ago. The decline from a month ago was due to declines in export and domestic storage bills; the outstanding volume of import bills was slightly larger than in July. The largest part of the decrease from a year ago occurred in bills arising out of foreign trade.

(Millions of dollars)

| Type of acceptance | Aug. 31, 1937 | July 30, 1938 | Aug. 31, 1938 |
|--|---------------|---------------|---------------|
| Import..... | 134 | 78 | 83 |
| Export..... | 71 | 63 | 58 |
| Domestic shipment..... | 10 | 10 | 10 |
| Domestic warehouse credit..... | 58 | 50 | 45 |
| Dollar exchange..... | 2 | 1 | 2 |
| Based on goods stored in or shipped between foreign countries..... | 69 | 63 | 60 |
| Total..... | 344 | 265 | 258 |

Security Markets

Throughout September, movements of stock prices in the United States, as in other countries, were influenced very largely by developments pertaining to the European crisis. The stock market quickly turned downward on the receipt of reports construed as unfavorable to the maintenance of peace, and equally quickly reacted upwards on news which seemed to indicate that the Sudeten question would be settled without warfare. On the whole,



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

however, the unfavorable developments through September 27 considerably outweighed the favorable ones with the result that the general level of share prices showed a net decline of 9 per cent from the end of August. More than one half of this net decline was accounted for by a drop on one day—September 13. Turnover on that day of 1,700,000 shares and on the following day, when trading reached 2,800,000 shares and prices declined somewhat further, were the most active markets of the period; otherwise, sales on no day exceeded 1,300,000 shares, indicating that no exceptional liquidation of stock holdings occurred.

On the morning of September 28, when after a weak opening it was announced that the heads of the governments of England, France, Germany, and Italy had agreed to confer in Munich on September 29 concerning the European crisis, stock prices immediately turned strong. This strength continued through the balance of the month with the result that quotations at the close of September indicated the cancellation of approximately all of the net loss during the preceding part of the month. As compared with the July-August highs, the general average of stock prices at the close of September was some 6 per cent lower.

Domestic corporation bond prices also were somewhat subject to the influence of the European crisis. Second grade issues were affected earlier and to a greater extent than high grade issues. For example, the average price of issues rated Baa by Moody's Investors Service dropped $1\frac{1}{4}$ points between the end of August and September 13, while the Aaa average showed no net change. A further drop of $2\frac{3}{4}$ points in Baa issues between September 13 and 27 was accompanied by a decline of $1\frac{1}{2}$ points in Aaa issues. In the closing days of September, the favorable turn of events in Europe was reflected in an advance of over 1 point in Baa issues and a slight rise in Aaa issues. At the end of September, the average price of Baa issues remained 3 points below the July high and Aaa issues were $1\frac{1}{2}$ points below the August high.

As was to be expected, the largest declines in bond prices during September occurred in foreign issues. The

extent of the declines in a number of representative issues is shown in the following table, together with the extent of recoveries near the end of the month.

| | August 31 | September 26 | September 29 |
|---|-----------|--------------|--------------|
| <i>New York Market (in dollars)</i> | | | |
| Australian 5's of 1955..... | 105¼ | 89 | 99¾ |
| Czechoslovak 8's of 1951..... | 81 | 60 | 77½ |
| French 7½'s 1941..... | 104 | 100 | 101 bid |
| German Govt. 7's 1949..... | 30¾ | 25 | 28¼ |
| Italian 7's of 1951..... | 71 | 56½ | 70½ |
| N. Y. Times average of 10 foreign govt. bonds..... | 82.72 | 74.40 | 79.71 |
| <i>London Market (in pounds)</i> | | | |
| British War Loan 3½'s..... | 102¼ | 92* | 99 |

* On September 27, a minimum price of £92 was placed on this issue by agreement of London jobbers and brokers.

New Financing

The volume of corporate security issues in September declined to about \$103,000,000, or less than one third of the August total. One \$42,000,000 flotation was postponed as a direct result of the threat of European war, and one other issue met with an indifferent response. The two other large issues during the month, however, were both well received, and the reduction in total offerings was due, not to unsatisfactory conditions of investment demand, in so far as high grade bond issues were concerned, but to the tension over the European situation, and random factors which determine the offering dates of specific large issues and which often result in wide fluctuations in totals from month to month. The large issues of the month included the offering to stockholders of \$39,500,000 Commonwealth Edison Company 3½ per cent convertible debentures of 1958, and public offering of \$30,000,000 Youngstown Sheet and Tube Company 4 per cent convertible debentures of 1948, and \$25,000,000 Atlantic Refining Company 3 per cent debentures of 1953. With the relieving of the uncertainty over developments in Europe, the total of offerings in October is expected to increase considerably over that in September.

Although the amount of new security issues providing funds for working capital and to finance plant construction and equipment purchases has declined each month since June, the monthly average for the third quarter of this year indicated a continuation of the recovery

of the second quarter. As the accompanying diagram indicates, the volume of new capital financing in the third quarter of this year was the largest since the second quarter of 1937 and compared favorably with the volume in the last quarter of 1936 and first quarter of 1937. As compared with the volume during the 1920's, however, new capital issues even in the most active periods during the past three years have been very low. Refunding operations, also shown in the diagram, increased in the third quarter of this year to about the same volume as in the second quarter of 1937, but were considerably less than in the preceding part of 1937 or in 1936.

Awards of municipal bonds during September amounted to about \$70,000,000. This is only slightly below the average of municipal awards of about \$75,000,000 a month so far this year and during 1937.

Central Bank Rate Changes

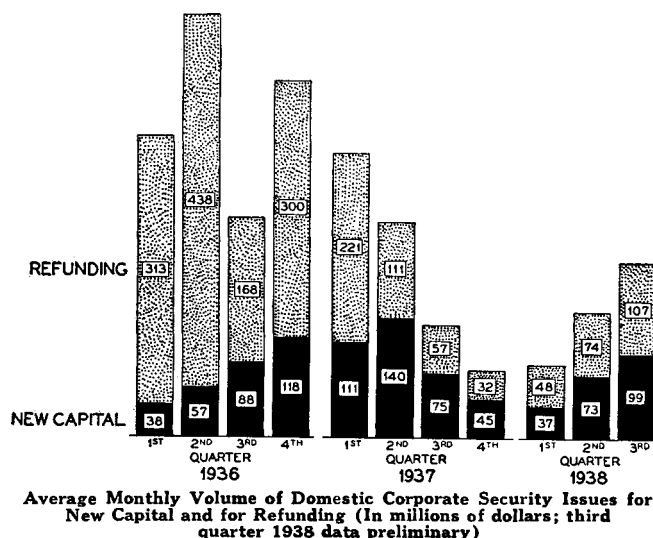
Effective September 28 the discount rate of the Bank of France was raised from 2½ to 3 per cent. The same change was made in the rate for 30 day loans on the collateral of Government securities of a maturity not exceeding two years, and the rate for 3 month advances on other eligible securities was raised from 3½ to 4 per cent. The lower rates had been in force since May 13, 1938.

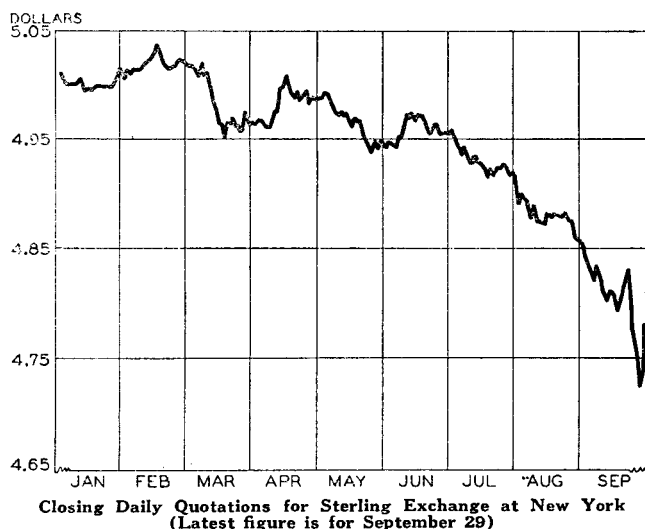
Gold Movements

Preliminary figures for imports directly affecting the United States gold stock in September show receipts at New York totaling \$303,300,000, of which \$259,100,000 came from England, \$37,500,000 from Canada, and \$6,700,000 from Holland. On the West Coast \$5,800,000 was received from Japan, \$2,400,000 from Australia, and \$1,500,000 from China. In addition, approximately \$11,000,000 of gold was released from foreign earmarked holdings during the month. Owing to these reported transactions and also to other large unreported receipts of gold, the United States gold stock was increased \$625,000,000 during September, the largest monthly gain of record excluding the gain which occurred in February, 1934, as a result of the reduction of the gold content of the dollar.

Foreign Exchanges

Extremely disturbed conditions prevailed in foreign exchange markets for the greater part of September, and European currencies fell to new low levels for several years against the dollar under the impact of a heavier flight of capital to New York from abroad than any previously recorded. Despite extensive official supporting operations, the pound sterling fell from \$4.85⅞ on August 31 to \$4.72 7/16 on September 27 as European negotiations looking toward a peaceful settlement of the question of the Sudeten German minority in Czechoslovakia appeared deadlocked, and broke sharply on September 28 to a five year low of \$4.61 before word of a Four Power conference called for Munich on September 29 gave new hope that a world war might be forestalled. On this news, sterling recovered to \$4.73¼ at the close of business on September 28, and ended the month around \$4.82.





Among the other European currencies, quotations for the French franc followed closely the movement of sterling. The guilder declined with sterling against the dollar until September 26, when it broke away from sterling and appreciated in New York and London. At the same time, the Swiss franc, which had remained steady in terms of the pound within a wider range, followed the guilder and rose against sterling and the dollar. The free reichsmark reached a four year low in this market at \$0.3844 in early trading on September 28, but closed the month around \$0.4000, compared with \$0.4008 on August 31. The belga showed a small net advance against the dollar during the month from \$0.1688 to \$0.1696, and at one time on September 28 reached \$0.1705.

The turnover in foreign exchange in the London and New York markets reached its highest level since the stabilization of the dollar in 1934 as foreign exchange quotations followed closely developments on the continent. Sterling reached \$4.78 13/16 in the course of trading on September 14 but firmed to \$4.81 at the close, upon the announcement of Prime Minister Chamberlain's intention to fly to Berchtesgaden to confer with Chancellor Hitler, and rose further to \$4.83 1/8 on September 21 when the Czechoslovak Government agreed to cede some portion of the Sudeten area to Germany. The sharp decline in sterling quotations in the following week reflected the subsequent worsening of the European political situation until the announcement on September 28 of the Four Power meeting to be held on the following day.

Trading in the London gold market during September was unsettled by attempts of gold hoarders to convert their holdings into foreign currencies, particularly dollars, and by the inability of arbitrageurs to clear the market at the shipping parity, due to the exhaustion of insurance facilities on scheduled ships and to progressive increases in premiums for war risk coverage. Due to these factors the sterling price of gold lagged behind the decline of the pound, rising from 143s 1/2d on September 1 only to 147s at the "fixing" on September 28, while sterling declined from \$4.85 1/2 to \$4.66. The dollar equivalent of the London gold price for the same period fell from \$34.76 3/8 to \$34.25 1/8, but rose on September 29

to \$34.56 as sterling appreciated to \$4.74 and the London price of gold receded to 145s 10d.

The flight of capital from Europe during September was principally from London, as British, Continental, and non-European funds were transferred from sterling into dollars. The French franc moved in general with sterling during the month, although the cross rate to London was allowed to move from 178.31 francs per pound on September 20 to 179 during the course of trading on September 28, after statements of the Bank of France for September 15 and 22 revealed sizable increases in the French note circulation and increased borrowing at the Bank of France by the French Treasury.

Outside Europe also foreign exchange markets were influenced by developments in the European political situation. Canadian exchange weakened sharply during the month, in contrast to its comparative strength when sterling was under pressure during August, and reached a discount of 3 per cent during the course of trading on September 28 compared with a discount of 1/8 per cent on August 31. The subsequent recovery of sterling, however, brought the discount down to 1 3/4 per cent. The Japanese yen remained pegged to sterling and declined over the month from \$0.2834 at the end of August to \$0.2788, but the Shanghai dollar was quoted at \$0.1750 at the end of September, unchanged from the end of August.

Production and Trade

Judging from information thus far available, the general level of business activity appears to have risen further in September. Activity at steel mills continued to rise, although at a less rapid rate than in the two preceding months. The September increase carried the operating rate to about 47 per cent of capacity in the last week of the month, as compared with 43 per cent in the last week of August. Automobile assemblies which had fallen to a low level in August were maintained at approximately the same rate in September, reflecting a start on the production of new models. Dealers' stocks of new and used cars apparently are considerably lower than at this time last year. Freight car loadings and the output of bituminous coal during the first half of September increased somewhat more than seasonally from the August averages. Electric power production has also been well maintained despite the temporary interruption of service in the North Atlantic States occasioned by the severe storm in the third week of the month. Cotton mill operations appear to have been maintained at around the relatively high August level, although until the third week of September mill sales of cotton goods were reported to have run below current output. Department store sales for the portion of the month for which figures are available appear to have increased somewhat more than seasonally from the August level.

General business activity, which increased substantially in July, showed a further gain in August. Among individual lines, gains of more than the usual seasonal proportions were reported in steel production, bituminous coal, copper, and zinc production, cotton, wool, and silk consumption, rayon deliveries, shoe production, and machine tool orders. The generation of electric power

which usually remains about unchanged at this time of year, likewise increased. On the other hand, passenger car and truck assemblies declined in August preparatory to inventory taking and the shift to new model production.

Department store sales in the United States during August showed about the usual seasonal advance from the July level, but in this district somewhat less than the usual rise was indicated. Mail order house sales were higher than in July, and sales of chain grocery stores decreased less than is ordinarily expected at this time of year, while sales of chain stores other than grocery were lower than in the previous month. Merchandise and miscellaneous freight car loadings advanced slightly more than is customary during August, while shipments of bulk commodities failed to advance as usual.

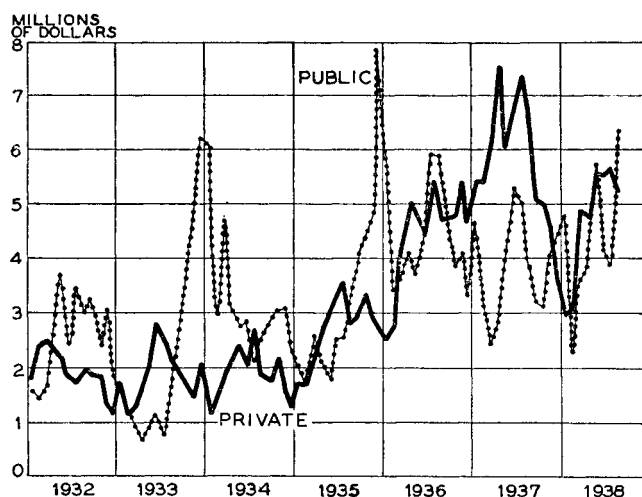
(Adjusted for seasonal variations, for estimated long term trend, and where necessary for price changes)

| | 1937 | 1938 | | |
|---|------------------|------|------------------|------------------|
| | August | June | July | August |
| <i>Industrial Production</i> | | | | |
| Steel..... | 116 ^r | 36 | 48 | 59 |
| Copper..... | 125 | 50 | 42 | 59 ^p |
| Passenger cars..... | 140 | 31 | 30 | 29 |
| Motor trucks..... | 129 | 46 | 51 | 47 |
| Bituminous coal..... | 86 | 62 | 66 | 69 ^p |
| Crude petroleum..... | 100 | 81 | 85 | 87 ^p |
| Electric power..... | 99 | 85 | 87 ^p | 90 ^p |
| Cotton consumption..... | 108 | 74 | 91 | 95 |
| Wool consumption..... | 106 | 75 | 92 | 112 ^p |
| Shoes..... | 105 | 88 | 105 ^p | 109 ^p |
| Meat packing..... | 77 | 78 | 81 | 87 |
| Tobacco products..... | 93 | 82 | 86 | 91 |
| Cement..... | 58 | 50 | 54 | 52 |
| Machine tool orders*..... | 165 | 61 | 89 | 103 |
| <i>Employment</i> | | | | |
| Employment, manufacturing, U. S..... | 104 | 77 | 79 | 81 ^p |
| Employee hours, manufacturing, U. S..... | 94 | 62 | 65 | 69 ^p |
| <i>Construction</i> | | | | |
| Residential building contracts..... | 33 | 31 | 39 | 43 |
| Nonresidential building and engineering contracts..... | 68 | 47 | 47 | 66 |
| <i>Primary Distribution</i> | | | | |
| Car loadings, merchandise and misc..... | 88 | 69 | 70 | 72 |
| Car loadings, other..... | 91 | 63 | 68 | 66 |
| Exports..... | 92 | 85 | 84 | 83 ^p |
| Imports..... | 96 | 67 | 64 | 80 ^p |
| <i>Distribution to Consumer</i> | | | | |
| Department store sales, U. S..... | 89 | 80 | 81 | 81 |
| Department store sales, 2nd District..... | 84 | 78 | 77 | 76 |
| Chain grocery sales..... | 91 | 100 | 98 | 101 ^p |
| Other chain store sales..... | 95 | 88 | 94 | 89 |
| Mail order house sales..... | 96 | 86 | 87 | 89 |
| New passenger car registrations..... | 113 ^r | 39 | 42 | |
| <i>Money Payments</i> | | | | |
| Bank debits, outside New York City.... | 64 | 59 | 56 | 56 ^p |
| Bank debits, New York City..... | 33 | 39 | 35 | 32 ^p |
| Velocity of demand deposits, outside New York City**..... | 70 | 60 | 61 | 59 |
| Velocity of demand deposits, New York City**..... | 44 | 42 | 40 | 37 |
| General price level†..... | 163 | 152 | 155 | 154 ^p |
| Cost of living†..... | 152 | 149 | 149 | 148 ^p |
| Composite index of wages†..... | 110 | 111 | 110 | 110 ^p |

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

Building

Stimulated by a large increase in contracts for publicly owned projects, total construction contracts in August in the 37 States covered by the F. W. Dodge Corporation reports not only exceeded the total for any single month since July, 1937, but also surpassed the figures for August of any year since 1930. Contracts for each of the three major construction classifications



Daily Average Value of Construction Contracts Awarded, Classified According to Type of Ownership of Construction (F. W. Dodge Corporation data for 37 States)

usually decline between July and August, but advances were recorded this year in each instance. On an average daily basis total contracts were 21 per cent greater than in July and were 7 per cent above the level of August, 1937. Residential building approached the \$100,000,000 mark for the first time since April, 1937, recording a 5 per cent increase over the preceding month and a 31 per cent advance from the level of August, 1937. A sizable part of these increases in residential building was due to such building conducted under public ownership, including a further small amount of United States Housing Authority slum clearance work.

The accompanying diagram indicates the relative importance of construction projects under public and private ownership from the beginning of 1932 to date. During the first half of 1937 contracts for privately owned projects increased sharply and exceeded awards for publicly owned work by a wide margin. Following a sharp curtailment of construction operations in the latter part of 1937, however, both types of construction have shown considerable increases this year. The rise in public ownership work in August was due in part to an expansion of the Public Works Administration program and to the award of a large additional contract for the new water supply project for New York City.

Percentage Change in Average Daily Contracts

| | 37 States | | N.Y. and Northern N.J. | |
|--------------------------------|---------------------------------------|---|---------------------------------------|---|
| | August, 1938 compared with July, 1938 | August, 1938 compared with August, 1937 | August, 1938 compared with July, 1938 | August, 1938 compared with August, 1937 |
| Building | | | | |
| Residential..... | + 5 | +31 | - 18 | + 25 |
| Commercial and industrial..... | - 23 | -58 | - 70 | - 53 |
| Public purpose*..... | + 45 | +10 | + 51 | - 49 |
| All building..... | + 8 | - 6 | - 27 | - 25 |
| Engineering | | | | |
| Public works..... | + 24 | +34 | + 30 | + 15 |
| Public utilities..... | +162 | +40 | +296 | +412 |
| All engineering..... | + 47 | +35 | +124 | +123 |
| All construction..... | + 21 | + 7 | + 12 | + 14 |

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

In the New York and Northern New Jersey area the August advance in construction contracts was less marked than in the 37 States. Heavy engineering work, augmented by the award of a large additional contract for the new water supply project for New York City, was more than double the July volume, and contracts for various public purpose buildings likewise showed a substantial increase, but contracts for residential and commercial and industrial building were lower than in July. Compared with August, 1937, total contracts were 14 per cent higher, due to increases in residential building and in heavy engineering construction.

Data for the first half of September indicate a decrease of 18 per cent from August in the rate of contract awards in the 37 States, whereas there is ordinarily an increase in this period. Compared with the first half of September, 1937, however, total contracts showed an increase of 11 per cent; heavy engineering awards were 34 per cent higher, and residential work increased 12 per cent, but nonresidential building was 11 per cent lower.

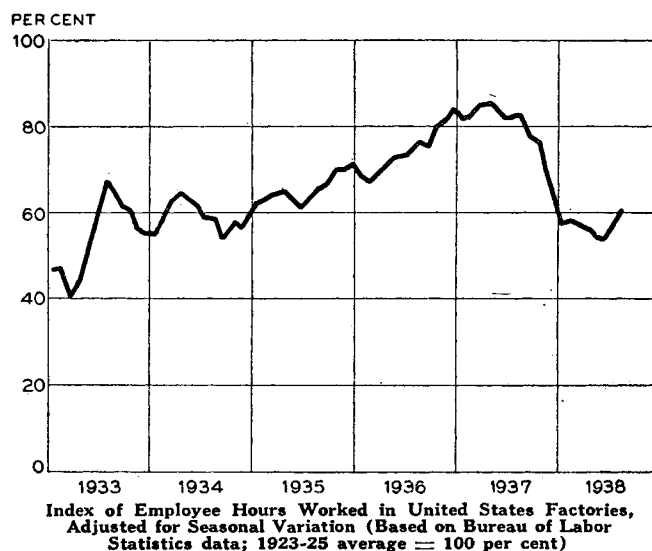
Employment and Payrolls

Employment in nonagricultural pursuits throughout the country was reported by the Secretary of Labor to have increased by nearly 250,000 persons in August. This represents the largest monthly gain in working forces since March, 1937. A net addition to factory employment exceeded a decline in the number of workers engaged in nonmanufacturing industries.

The Bureau of Labor Statistics has recently revised its estimates of factory employment and payrolls by adjusting them to the level of 1935 census data. On the revised basis, the number of workers increased about 5 per cent further from July to August and wage disbursements rose approximately 9 per cent. These gains compare with an average rise in this period of past years of 1½ per cent in employment and about 3 per cent in payrolls. The nondurable goods industries continued to account for the greater part of the addition to factory working forces owing largely to more than seasonal increases at clothing, cotton, woolen, and knit goods factories, and to a seasonal rise at canning factories. The durable goods group of industries reported the first employment rise in 10 months, reflecting gains in working forces at steel mills, electrical machinery plants, foundries and machine shops, furniture factories and saw mills. Compared with August, 1937, when business was still at a high level, the August, 1938 estimate of total factory employment was 21 per cent lower and payrolls were 29 per cent less.

For the second month, this bank's seasonally adjusted index of employee hours in manufacturing industries increased in August, reaching a point 11 per cent above the June low. As the accompanying diagram indicates, this represents a recovery of about one-fifth of the decline which occurred between April, 1937 and June, 1938.

Continuing the July advance, New York State factory employment rose 6 per cent in August and payrolls increased 7½ per cent. These gains were about 4½ per cent greater than the average advances at this time of year. The clothing and millinery group, with a greater than usual seasonal expansion, registered the largest



gain. The metals and machinery industries also increased their working forces, for the first time since September, 1937. Canning and preserving factories, however, dismissed more than one-third of their workers following seasonal expansion in July. August employment was about 15 per cent lower than a year ago and payrolls this year were 20 per cent lower.

Commodity Prices

Developments in the European situation were the principal factor influencing prices of actively traded commodities during September. Individual prices, however, showed no material net changes for the month as a whole, despite erratic and rather wide fluctuations from day to day.

There was some reduction in domestic wheat prices during the first week of September, reflecting largely weakness in the Winnipeg and Liverpool grain markets. As the situation abroad became more tense wheat prices tended irregularly higher, but a lessening of this tension toward the end of the month caused a rather substantial reaction, and prices showed little net change for the month as a whole. A similar trend was shown in corn prices.

The movement in cotton prices during September was contrary to that of grains, as the market was depressed during most of the month as a result of news from abroad. The average price of spot cotton at 10 southern markets reached a low of 7.92 cents a pound on September 17, but recovered toward the end of the month to 8.20 cents, thus showing a net loss of ⅓ cent for the month as a whole. The price of crude rubber advanced substantially to 16 9/16 cents a pound on September 12, following an announcement by the International Rubber Regulation Committee that the export quota for the fourth quarter would remain unchanged despite increased domestic consumption. Subsequently, however, the price declined to 16 cents, or ⅓ cent lower than the August close. A net decline occurred also in the price of raw silk, while raw sugar again tended somewhat higher.

Nonferrous metal prices held steady during the first half of September, but subsequently turned upward.

As a result of two successive increases spot copper rose $\frac{1}{4}$ cent to $10\frac{3}{8}$ cents a pound, lead increased 20 points to 5.10 cents a pound, and zinc advanced 20 points to 4.95 cents a pound. The price of tin, at $44\frac{1}{2}$ cents a pound, showed a net gain of $1\frac{1}{4}$ cents. On the other hand, one large steel producer announced during the month rather substantial reductions in prices of steel rails and track materials. Scrap steel prices also tended somewhat lower during September; at Pittsburgh the quotation receded 25 cents to \$15.25 a ton, and at Chicago declined 50 cents to \$13.25 a ton.

Foreign Trade

Both merchandise exports and imports of this country were larger during August than in the preceding month, although the total values remained well below the levels of a year ago. In the case of imports, the total of \$166,000,000 showed a more than seasonal increase over the previous month, reversing the continuous decline since March of this year, but the value was still one-third less than in August, 1937. Exports, valued at \$231,000,000, showed an increase over July of somewhat less than the usual seasonal proportions, and a decline of 17 per cent from a year ago. The resulting \$65,000,000 excess of exports was the smallest export balance since last September.

The foreign trade of the United States in August showed striking contrasts in the movements of the various major economic groups from the preceding month and from a year ago. All of the leading groups of imports, while continuing to show substantial decreases in value from a year ago, shared in the general increase over the preceding month in total imports. Increases in the value of imports over July, ranging by types of products from 20 per cent in the case of finished manufactures to 7 per cent in the case of crude foodstuffs, may be accounted for to some extent by price rises, but probably reflected in part increased immediate demands for foreign raw materials incident to the upturn in domestic activity and perhaps in part accelerated takings of foreign goods in anticipation of possible interference with foreign trade arising out of the European situation. Receipts of such manufactured articles as textile, leather, and paper products, works of art, cut diamonds, tin, and nickel showed notable increases over July. In the category of crude materials, imports of hides and skins, furs, raw silk, unmanufactured wool, jute, and rubber increased materially compared with the preceding month. Sugar imports were larger in volume and value than in July, or than a year ago.

The August value of exports of crude foodstuffs, while continuing to show a substantial increase over the small figures of a year previous, was 10 per cent smaller than in the preceding month. Exports of wholly and partly finished manufactures were somewhat smaller in the aggregate than in July, and showed material declines in value from a year ago. The majority of individual exports of manufactures contributed to the decline in this group, although shipments of industrial machinery and gasoline were larger than in July and also continued to show increases over a year ago. Exports of crude

materials, while somewhat below the value of a year ago, showed an increase of 34 per cent over July, in which increased shipments of unmanufactured tobacco at higher prices was the leading factor. Exports of raw cotton showed little change in quantity or value from the preceding month, but were considerably reduced from a year ago.

Department Store Trade

During the four weeks ended September 24 department store sales in this district were about 5 per cent lower than in the corresponding period last year, but it appears that September sales have shown somewhat more than the usual seasonal advance from the August level.

Total August sales of the reporting department stores in this district were approximately 7 per cent below last year. After allowing for one more shopping day this year than last, however, average daily sales showed a somewhat larger decline from a year ago than in the two preceding months. Reporting stores in a majority of the localities again had reductions in sales from last year. The leading apparel stores in this district reported a decline in average daily sales which was larger than in the preceding four months.

Stocks of merchandise on hand in the department stores, at retail valuation, were 13 per cent lower at the end of August, 1938, than at the end of August, 1937, and apparel store stocks were 10 per cent lower. The rate of collections was practically the same this year as last in the department stores, but continued to be slower than a year ago in the apparel stores.

| Locality | Percentage change August, 1938 compared with August, 1937 | | Per cent of accounts outstanding July 31 collected in August | |
|------------------------------|--|-------------------------------------|--|-------|
| | Net sales | Stock on hand end of month | 1937 | 1938 |
| New York and Brooklyn | - 7.7 | -13.1 | 43.1 | 43.8 |
| Buffalo | - 7.8 | - 9.4 | 45.8 | 42.7 |
| Rochester | - 5.0 | -10.0 | 50.9 | 49.3 |
| Syracuse | + 3.7 | -10.1 | 37.0 | 38.1 |
| Northern New Jersey | - 5.7 | -16.7 | 37.6 | 37.3 |
| Bridgeport | - 7.4 | -12.8 | 38.9 | 38.6 |
| Elsewhere | - 6.1 | - 4.9 | 32.1 | 31.4 |
| Northern New York State | - 2.4 | ..... | ..... | ..... |
| Southern New York State | - 6.3 | ..... | ..... | ..... |
| Central New York State | -14.2 | ..... | ..... | ..... |
| Hudson River Valley District | + 1.2 | ..... | ..... | ..... |
| Westchester and Stamford | - 9.0 | ..... | ..... | ..... |
| Niagara Falls | - 9.4 | ..... | ..... | ..... |
| All department stores | - 6.9 | -13.0 | 41.7 | 41.6 |
| Apparel stores | -12.2 | -10.0 | 35.4 | 34.4 |

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

| | 1937 | 1938 | | |
|-----------------------------|--------|------|------|--------|
| | August | June | July | August |
| Sales, unadjusted | 72 | 85 | 62 | 64 |
| Sales, seasonally adjusted | 95 | 89 | 88 | 86 |
| Stocks, unadjusted | 86 | 75 | 69 | 75 |
| Stocks, seasonally adjusted | 91 | 79 | 79 | 79 |

FEDERAL RESERVE BANK OF NEW YORK

MONTHLY REVIEW, OCTOBER 1, 1938

Business Conditions in the United States

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

INDUSTRIAL activity increased considerably in August and advanced further in September. Factory employment and payrolls also showed a substantial rise in August, and distribution of commodities to consumers increased seasonally.

PRODUCTION

Volume of industrial production showed a further considerable increase in August, and the Board's seasonally adjusted index rose from 83 to 88 per cent of the 1923-1925 average. In manufacturing, increases in output were general except in the automobile industry where there was a sharp seasonal decline as plants were closed for inventory taking and for preparation for the shift to new model production. At steel mills, where activity had risen considerably in July, there was a further advance in August and production was at an average rate of 42 per cent of capacity as compared with 35 per cent in the previous month. Output of lumber and plate glass also increased. In the textile industry the sharp advance that had been under way since early summer continued. Mill consumption of wool and cotton increased further, and deliveries of rayon were maintained at the high level reached in July. Shoe production showed a further increase and activity at meat packing establishments showed less than the usual seasonal decline. Production of bituminous coal and crude petroleum increased somewhat further.

In the first three weeks of September steel ingot production continued to increase, while automobile production remained at the low level reached in August. Output of crude petroleum was reduced, as wells in Texas were closed on both Saturdays and Sundays, whereas in August only Sunday closings had been required.

Value of construction contracts awarded in 37 Eastern States increased considerably in August, according to figures of the F. W. Dodge Corporation. The increase was in publicly financed projects and reflected partly the expansion of the Public Works Administration program and the award of the first contract for the slum clearance projects of the United States Housing Authority. Awards for private residential building continued at about the same rate as in July and were close to the level reached in the spring of 1937. Commercial building, which had increased in July owing to the award of a contract for a large office building, declined in August to about the level of other recent months.

EMPLOYMENT

Factory employment and payrolls showed a marked rise from the middle of July to the middle of August, while in nonmanufacturing industries employment showed little change. The number employed at factories producing durable goods increased for the first time since the summer of 1937 and in the non-durable goods industries, where employment had increased in July, there was a further rise. Most leading industries reported increases in the number of workers.

DISTRIBUTION

Distribution of commodities to consumers increased seasonally from July to August. Department store sales showed about the usual rise and mail order sales increased, while variety store sales declined. In the first half of September sales at department stores increased more than seasonally.

Freight car loadings increased somewhat further in August, reflecting chiefly larger shipments of miscellaneous freight.

COMMODITY PRICES

Prices of silk and rubber showed some advance from the middle of August to the third week of September and there were also increases at the end of the period in nonferrous metals. Wheat prices fluctuated considerably but showed little net change in this period. Prices of cotton and wool declined somewhat, and there were further decreases in prices of some finished industrial products.

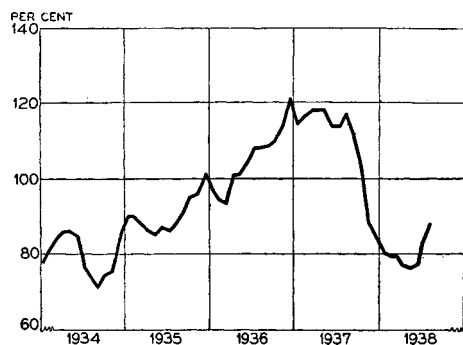
BANK CREDIT

A heavy inflow of gold from abroad during the five weeks ended September 21 resulted in an increase of over \$500,000,000 in the monetary gold stock. Member bank reserves were increased by Treasury payments for gold acquired but were sharply reduced in the last week of the period by payments to the Treasury for cash purchases of new securities and quarterly income tax collections. As a consequence of these transactions, excess reserves, which had increased to \$3,130,000,000, were reduced to \$2,740,000,000 on September 21.

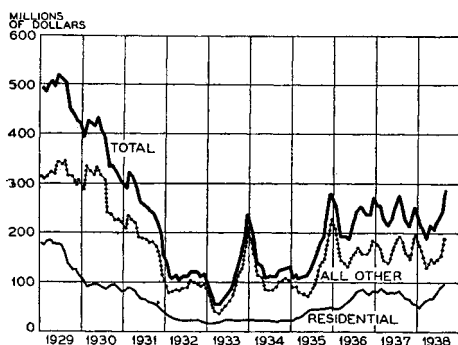
Total loans and investments of reporting member banks in leading cities increased sharply during August and the first three weeks of September, reflecting chiefly an increase in holdings of United States Government obligations. Balances held in New York City for foreign banks showed a substantial increase.

MONEY RATES AND BOND YIELDS

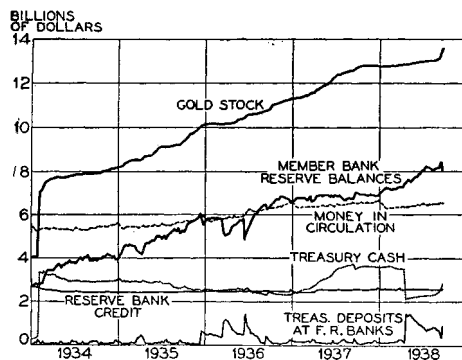
The average yield on long term Treasury bonds increased in September from the low point reached at the end of August. The average rate on new issues of Treasury bills increased to 0.11 per cent, compared with 0.05 per cent. Yields on high grade corporate bonds increased slightly.



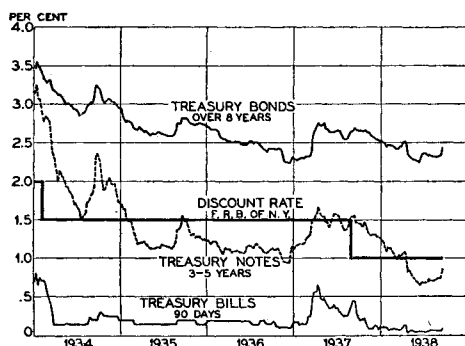
Index Number of Production of Manufactures and Minerals Combined, Adjusted for Seasonal Variation (1923-25 average = 100 per cent)



Value of Construction Contracts Awarded (Three month moving averages of F. W. Dodge Corporation data for 37 States, adjusted for seasonal variation)



Member Bank Reserves and Related Items (Latest figures are for September 21)



Money Rates in New York City