MONTHLY REVIEW
of Credit and Business Conditions
Second Federal Reserve District

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

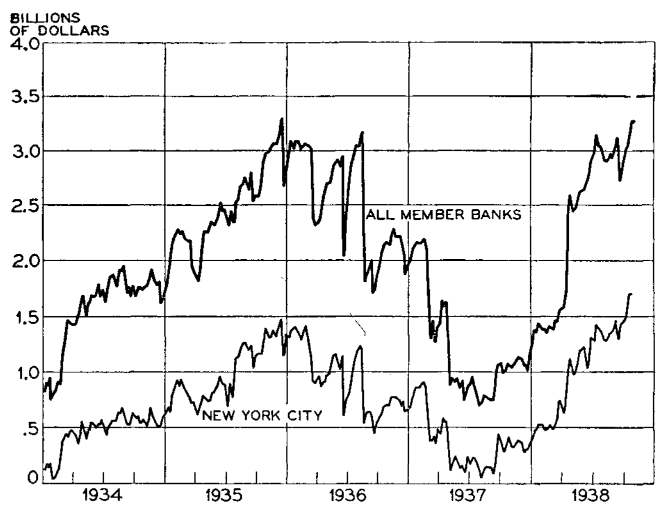
Money Market in October

The passing of the European crisis, which developed out of the Czechoslovakian situation, was reflected in the New York money market by recoveries in security prices, beginning in late September and continuing in October, and by a resumption of new security flotations in October. Prices of best grade bonds approached previous high levels, less high grade bonds and stocks reached the highest quotations in a year, and the October volume of security financing was the largest since June, 1937.

Despite the relaxation of tension in Europe, however, the United States continued to gain gold from abroad during October. A part of this gold represented further settlements for the large transfers of funds from Europe in the latter part of September, and a part resulted from a renewed sizable inflow of foreign funds to the United States around the middle of October, which was indicated by the weakness in sterling exchange at that time. Although the rise in the United States gold stock in October was about one-half that of September—approximately $310,000,000 as compared with $624,000,000—the inward gold movement continued to have significant effects on the banking system of this country. Excess reserves of all member banks rose to a figure only slightly below the record high of December, 1935, and demand deposits in reporting banks increased to a larger total than ever before.

As is indicated in the accompanying diagram, excess reserves of all member banks in the country amounted to $3,280,000,000 on October 26, as compared with the previous peak of $3,300,000,000 which was reached in December, 1935; in New York City excess reserves of member banks reached a new high of $1,700,000,000 on October 26 (the December, 1935 high was approximately $1,500,000,000), due principally to the gold inflow which, initially, affected most largely the New York City banks. Previously this year, on July 13, excess reserves of all member banks had risen as high as $3,150,000,000, but in succeeding weeks they declined, and on September 21 were $2,740,000,000. In the past five weeks, therefore, there has been a rise of $540,000,000 in excess reserves, and a net rise of $130,000,000 since July 13 which has been brought about almost entirely by an increase of $1,072,000,000 in the gold stock of the country during the past three and one-half months. A large part of the increase in member bank reserves resulting from this inflow of gold was offset by an increase of $210,000,000 in the amount of money in circulation and a rise of $408,000,000 in Treasury holdings of cash and deposits in the Federal Reserve Banks, largely associated with the cash sale of new issues at the September quarterly financing date, or was absorbed by an increase of $337,000,000 in the amount of reserves required to be kept by the member banks against their increased deposits.

The return of excess reserves to practically the December, 1935 peak, despite the maintenance of reserve requirements at a level nearly 75 per cent above those prevailing at that time, again draws attention to the size of the credit base in this country upon which an expansion of bank loans and investments, and therefore of deposits, could take place. The maximum theoretical expansion of loans and investments of all member banks, which could be based upon present excess reserves, would appear to be about $17,000,000,000, assuming that the resulting newly created deposits would be entirely demand deposits and be distributed among the central reserve, reserve city, and country banks in the same proportions as at the present time, and assuming, further, that no expansion in currency circulation would occur. Such an expansion in deposits, although much less than was theoretically possible in December, 1935, when the percentages of required reserves were considerably lower than at the present time, is nevertheless extremely large relative to adjusted demand deposits in all member banks of about $21,000,000,000 in recent months and of about



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

$16,000,000,000 in the year 1929. Excess reserves at the present time, therefore, are more than sufficient to serve as the base for any conceivable, near term expansion of bank credit which might be desirable.

Moreover, in coming months it appears that excess reserves may rise even further, as the Treasury's total holdings of cash and deposits in the Reserve Banks may be expected to undergo a reduction from the present level. Seasonal expansion of currency circulation to the Christmas peak, and also net receipts of funds by the Treasury at the December quarterly tax date, may interrupt the generally rising tendency of excess reserves, but the usual prompt return of currency to the Reserve Banks after Christmas and the disbursement of funds received by the Treasury at the December quarterly date will thereafter result in large increases in excess reserves. These constitute essentially short term, though on occasion important, influences on the movement of excess reserves. The principal natural determinant of the ultimate course of excess reserves is the extent of the gold movement to the United States in coming months. As has been the case in recent months, this movement in turn depends largely upon the size of possible transfers of capital to this country from abroad, as a consequence of developments in foreign countries or favorable opportunities for investment here.

Money Rates

Accompanying the decline in yields on long term bonds during October, yields on short term Treasury obligations receded during the past month to levels close to their previous lows. Other money rates were unchanged throughout the month.

Money Rates in New York

	Oct. 30, 1937	Sept. 30, 1938	Oct. 31, 1938
Stock Exchange call loans	1	1	1
Stock Exchange 90 day loans	*1¼	*1¼	*1¼
Prime commercial paper—4 to 6 months	1	⅝—¾	⅝—¾
Bills—90 day unindorsed	7/16	7/16	7/16
Customers' rates on commercial loans (Average rate of leading banks at middle of month)	1.67	1.63	1.63
Average yield on Treasury notes (3-5 years)	1.37	0.76	0.69
Average yield on Treasury bonds (more than 8 years to maturity or call date)	2.63	2.36	2.27
Average rate on latest Treasury bill sale			
91 day issue	....	0.14	0.03
140 day issue	0.26	....	....
Federal Reserve Bank of New York rediscount rate	1	1	1
Federal Reserve Bank of New York buying rate for 90 day indorsed bills	½	½	½

* Nominal

Member Bank Credit

Although a seasonal peak is frequently reached in October, there continued to be little indication of expansion in the total of commercial, industrial, and agricultural loans of the weekly reporting member banks during the past month. In New York City, the total for this class of loans was practically unchanged for the four weeks ended October 26, and in 100 other principal cities the net increase amounted to only $25,000,000. New York City banks' "commercial" loans, toward the end of October, were virtually at the low level reached in August of this year, and in 100 other cities the rise from the August low amounted to $64,000,000. One factor which has influenced the behavior of "commercial" loans has been the sale of new security issues by corporations for the announced purpose of paying off bank borrowings. For the period, June to October, a compilation made by this bank shows that at least $160,000,000 of new securities were issued by corporations to retire bank loans, and it would appear that such security issues were an especially important influence in restraining the rise in "commercial" loans of the New York City banks.

Investment holdings, other than United States Government securities, of all reporting banks rose by a net amount of $93,000,000 during the four weeks ended October 26, owing largely to purchases of new issues of New York State and New York City securities by New York City banks. Total reporting bank holdings of direct obligations of the United States showed little net change from the level reached as a result of the sizable increase at the time of the September 15 Treasury financing; holdings by New York City banks were reduced while holdings by other reporting banks increased. Reflecting principally the rise in "other" investments and an increase of $79,000,000 in loans to brokers and dealers, mostly by New York City banks, total loans and investments of all reporting banks showed a net increase of $253,000,000 for the four weeks ended October 26.

Demand deposits in the reporting banks increased $487,000,000 further during the past four weeks, and reached the largest total of record. This increase reflected the inward gold movement of the period as well as expansion of bank loans and investments.

Government Securities

Prices of Treasury bonds advanced further in the first half of October. On October 15 the average price of Treasury bonds of more than eight year term to call date or maturity reached a level 2¼ points above the closing low of September 27, and a number of issues established new highs of record. Activity in the Government bond market, which had not been exceptionally large even during the period of rapidly rising prices, diminished to very small proportions in the latter part of the month and prices showed only slight fluctuations from the highs of the middle of the month.

The yields on Treasury notes, which, after increasing to an average of 0.93 per cent for three to five year maturities on September 26, had declined to 0.76 per cent at the end of that month, continued to move lower during the early part of October and reached an average of 0.65 per cent on the 5th. Thereafter the quotations for the intermediate and longer term notes showed little change, easing fractionally, however, towards the end of the month. The shorter maturities of notes were in rather strong demand throughout the month, with the principal interest in the March, 1939 maturity which was traded in on the basis of "rights" value in connection with a possible exchange offering.

The slightly firmer rate tendency which had been evident during September in connection with weekly issues of Treasury bills entirely disappeared in October, and the October weekly offerings were marketed at rates ranging between 0.018 per cent and 0.032 per cent, as compared with 0.142 per cent for the September 28 issue. The four $100,000,000 issues floated in October replaced equivalent maturities.

On October 24 the Treasury, on behalf of the Reconstruction Finance Corporation, offered an issue of Reconstruction Finance Corporation three year ⅞ per cent notes, fully guaranteed by the United States. The amount of the offering was limited to the amount of 1½ per cent R.F.C. notes maturing December 15, 1938, concurrently tendered by holders for purchase by the Treasury. Of the $298,972,000 of such notes outstanding, $297,162,000 were turned in for purchase, and a like amount of the new ⅞ per cent notes was issued on November 1.

Bills and Commercial Paper

The discount market for bills continued dull during October owing to the limited supply of paper coming into dealers' hands. Rates remained unchanged. Responding to seasonal influences, the total of bills outstanding at the end of September was $3,000,000 larger than in August; a further increase of approximately $6,000,000 in outstandings of import bills was the principal change. Accepting banks and bankers held in their portfolios at the end of September approximately 85 per cent of all bills outstanding.

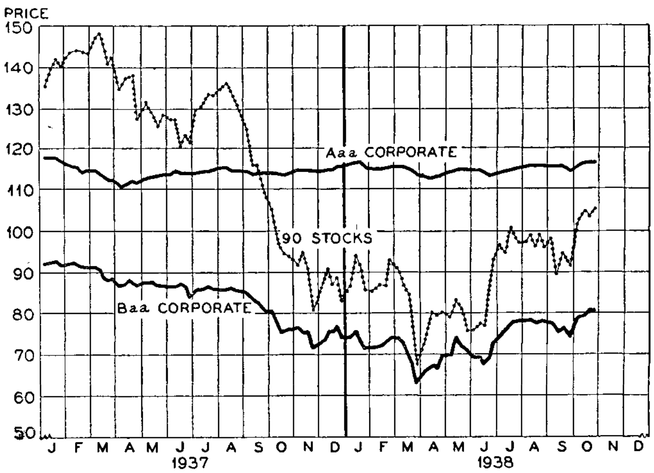
(Millions of dollars)

Type of Acceptance	Sept. 30, 1937	Aug. 31, 1938	Sept. 30, 1938
Import	127	83	89
Export	77	58	57
Domestic Shipment	11	10	9
Domestic warehouse credit	62	45	47
Dollar exchange	1	2	2
Based on goods stored in or shipped between foreign countries	66	60	57
Total	344	258	261

A diversified list of business enterprises was again represented in the moderate volume of borrowing through the commercial paper market during October. These new drawings continued to be less than the active investment demand for commercial paper which has existed for some time past, and rates for average grade prime 4 to 6 month paper were unchanged at the range of ⅝-¾ per cent reached in September. Following decreases in the preceding five months, commercial paper houses reported a total of $212,300,000 of paper outstanding at the end of September, a seasonal increase of about $3,000,000 from August, but a decline of $119,000,000 from the amount outstanding a year ago.

Security Markets

The recovery of stock prices which followed the abatement of war fears late in September continued at a rapid rate in the first half of October, under the impetus of further indications of domestic business improvement. The advance was more than sufficient to offset the downward movement of prices which had been in progress during most of August and September, and consequently the general average of prices reached the highest level since October, 1937. The upward tendency definitely slackened in the second half of October and most comprehensive averages of stock prices in this period showed only minor irregular fluctuations; the Standard Statistics



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

Company index of ninety stocks remained fairly steady at a level about 30 per cent below the peak of the previous recovery movement reached in March, 1937. The decline in this index from its March, 1937 high to its low point twelve months later had been 55 per cent.

Public utility and railroad stocks showed larger percentage advances than industrial shares in the September-October recovery, as there were several specific developments which were interpreted as favorably affecting these classes of securities. These included the decision of a large public utility holding company to conform to the provisions of the Public Utility Holding Companies Act, proposals which led to the adoption of a program to promote capital expenditures in the electric power industry designed to integrate generating and distributing facilities for reasons of national defense; and with respect to railroad securities, recent negotiations and deliberations which it was felt might culminate in some lowering of railroad wage rates. At the close of the month railroad stocks eased somewhat, following announcement of the special railroad board decision not to recommend a decrease in railway wages.

The volume of stock market trading was considerably higher in October than during the August-September period of declining prices; the average number of shares traded per day was about 1,900,000, as compared with a daily average of slightly under 1,000,000 shares in the previous month. There were indications that a marked increase in buying of securities for foreign account was one of the factors contributing to the increased activity of the market.

As is shown in the accompanying diagram, the direction of movement of prices of both high grade and second grade corporation bonds during October corresponded broadly to that of stocks although the magnitude of the advance, particularly in the case of high grade bonds, was considerably smaller. Indicative of price movements in the highest grade issues, Moody's index of Aaa bond prices advanced during the first half of October to a point equal to the January, 1938 high, and late in the month advanced slightly further to a new high since January, 1937. The recovery in the prices of less high grade bonds was reflected in a rise in Moody's Baa bond price index to the highest level since September, 1937. Although all groups participated in this upward movement, the more speculative railroad issues generally showed the largest proportionate advances among domestic corporate issues. In foreign bonds also, the upward movement which began late in September was continued during October. The largest increases occurred in the quotations for German, Italian, and Japanese dollar obligations, but advances were general among other foreign dollar issues, including, for example, those of the Scandinavian countries, Argentina, and Australia.

New Financing

The total volume of corporate financing in October reached the largest amount since June, 1937. Of the total of about \$375,000,000, some \$70,000,000 was for new capital purposes and \$305,000,000 for refunding. Issues for refunding purposes were in larger volume than for any month since December, 1936, but the amount of new capital issues was less than in June, July, or August, 1938.

One large issue was placed privately, and six large issues were floated publicly, all of which were quickly sold and were afterwards quoted in the market at premiums of from ½ to 2 points or more. The principal issues of the month were:

\$37,500,000	Virginia Electric and Power Company first and refunding mortgage 3½'s of 1968 at 103½
34,000,000	Michigan Consolidated Gas Company first mortgage 4's of 1963 at 97½, and
8,000,000	4 per cent serial notes of 1939-48
40,000,000	Union Carbide and Carbon Corporation debenture 3's of 1953, placed privately before October but reported in that month
80,000,000	Public Service Company of Northern Illinois first mortgage 3½'s of 1968 at 103
55,000,000	Ohio Power Company first mortgage 3¼'s of 1968 at 101½ (in addition \$10,000,000 at 3½ per cent, due in 1948, was borrowed from banks)
55,000,000	Wisconsin Electric Power Company first mortgage 3½'s of 1968 at 103½ (in addition \$14,500,000 of 3.40 per cent notes of 1939-48 was sold to banks)
50,000,000	Firestone Tire and Rubber Company debenture 3½'s of 1948 at 99½

The total for October represents a more than threefold increase over the \$110,000,000 total for September, but the amount for new capital purposes was only slightly larger. Most of the borrowing of new capital was by the Union Carbide and Firestone companies.

As October closed, no large corporate issues for public sale were in registration with the Securities and Exchange Commission, and it is therefore likely that the volume of flotations in November will show a very sharp decline.

Municipal bond awards in October amounted to about \$90,000,000. The outstanding short term issues during the month were \$100,000,000 State of New York 0.25 per cent 7 month notes and \$30,000,000 City of New York 0.40 per cent revenue bills due February 23, 1939.

Central Bank Rate Changes

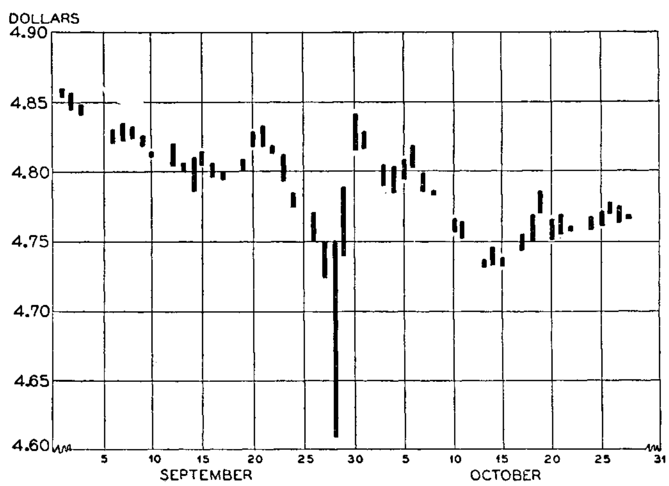
Effective October 27, the National Bank of Belgium lowered its discount rate from 3 to 2½ per cent. The higher rate had been in force since May 30, 1938.

Foreign Exchanges

The subsidence of tension in Europe, which followed the Munich settlement of the Sudeten German problem on September 29 and 30, was attended in the foreign exchange markets by a gradual restoration of more orderly conditions during the month of October, although exchange rates, in terms of dollars, eased somewhat from the quotations to which they had recovered at the close of September. This return to more normal conditions is indicated in the accompanying diagram which shows the extent to which the spreads between the daily high and low quotations for the pound sterling narrowed, especially during the latter half of October.

The recovery in the pound sterling, which, beginning on the morning of September 28 after sterling had fallen to \$4.61 carried the rate to \$4.83¼ at the close on September 30, came to a halt at that level. During the next two weeks sterling was under heavy pressure again, and the rate fell to \$4.73⅛, as sentiment turned against the Munich settlement for a period, and as speculation against sterling became strong under the stimulus of rumors circulating to the effect that the British exchange authorities intended to let the pound depreciate. After the middle of the month, however, the pound recovered to the level of \$4.76 and closed at \$4.75½, after fluctuating in a quiet market between \$4.78¼ and \$4.75¼. Over the month as a whole, funds continued to move to New York from abroad, although at a diminishing rate, and the slight rallies in sterling in the second half of the month in response to the year-old rumors of further dollar devaluation appeared to reflect a small movement out of dollars into gold in London rather than into sterling.

In the London market the dollar equivalent of the gold price at "fixing" was quoted close to the shipping parity level, as the insurance market for gold shipments emerged from the disturbed September condition. The sterling price of gold advanced over the month from 144s 1d to 146s ½d, under the stimulus of the decline in sterling and a resumption of hoarding in London. The discount on forward sterling for three month delivery reached a level equivalent to 1 11/16 per cent per annum at the



Daily Range of High and Low Quotations for Sterling Exchange at New York (Latest data are for October 28)

middle of the month from 13/16 per cent on September 30 and 3 3/16 per cent on the morning of September 28, but recovered to the equivalent of 1⅛ per cent at the end of October.

The French franc was under pressure for a few days early in October until the Parliament on the 5th voted confidence in Premier Daladier over the Munich settlement and accorded his government plenary powers to govern by decree until November 15. Some pressure on the currency reappeared briefly late in the month when, after a three week period in which no decrees had been issued, the discussion at the Radical Socialist party congress of the necessity for a "directed economy" revived old rumors that exchange control would be instituted. Quotations for the franc in New York fluctuated closely with those for the pound sterling, but in London the franc firmed from 179 3/32 francs per pound on October 3 to 178 11/16 on October 24, before closing the month at 178 23/32. The discount on three month forward contracts similarly narrowed from the equivalent of 19¼ per cent per annum on October 4 to 9½ per cent on October 25 and 13½ per cent at the month end.

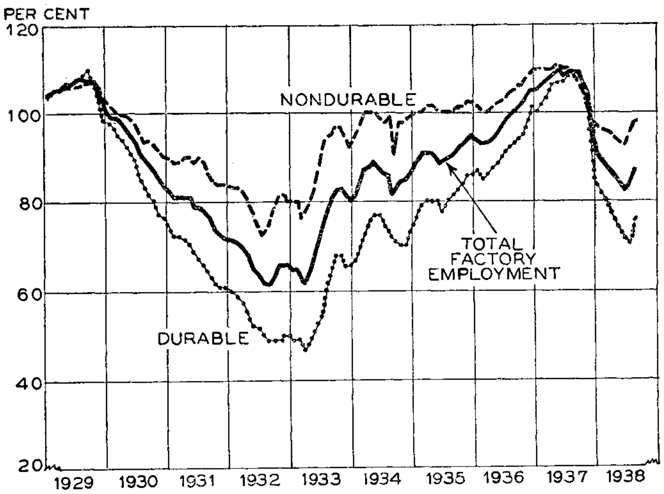
The Dutch guilder and the Swiss franc, which had moved more closely with the pound than with the dollar prior to September 26, fluctuated during October more in consonance with the dollar than with the pound. The guilder firmed slightly in New York from $0.5437 on September 30 to $0.5444 at the end of October, while it appreciated considerably in London from 8.89 to the pound on September 30 to 8.74 at the close of October. The Swiss franc eased against the dollar from $0.2278 at the end of September to $0.2270½ but gained against the pound, advancing from 21.21 to 20.96 francs per pound over the month. The belga held firm against the dollar and appreciated against sterling during the month, while quotations for three month forward belgas, which had been at a wide discount at the beginning of the month, reached on October 26 a discount equivalent to less than 2 per cent per annum for the first time since April of this year.

Gold Movement

During October, gold imports affecting the United States gold stock included receipts at New York totaling $127,300,000, of which $112,300,000 came from England, $10,000,000 from Canada, $4,200,000 from Holland, $700,000 from India, and $100,000 from Australia, and on the West Coast receipts of $9,300,000, of which $6,400,000 came from Japan, $2,700,000 from Australia, and $200,000 from China. In addition, there was a gain to the gold stock through the release of $3,000,000 from foreign earmarked holdings. As a result of these reported transactions and an even larger total of unreported acquisitions of gold by the Treasury, the United States gold stock was increased by approximately $310,000,000 during October, or about one-half the rise in September.

Employment and Payrolls

A further increase of 440,000 workers in nonagricultural occupations during September was reported by the Secretary of Labor. This addition to working forces represents the largest monthly gain recorded since December, 1936. Manufacturing industries accounted for most of the increase with a net addition of 250,000 employees, although among the nonmanufacturing industries, 184,000 additional workers were engaged in retail trade, representing more than the usual seasonal advance.



Seasonally Adjusted Indexes of Total Factory Employment in the United States, and of Employment in Durable and Nondurable Groups of Industries (1923-25 average = 100 per cent)

Factory employment increased about 3½ per cent in September and wage disbursements rose approximately 5 per cent. As in the previous two months, the movements compared favorably with usual seasonal experience. Employment in the durable goods group of industries increased 5 per cent further in September, although little change usually occurs at this time of year. A rise of 33 per cent in employment at automobile plants reflected preparations for the introduction of new models. The number of workers in the nondurable goods industries advanced by about 3 per cent further, owing in part to large seasonal gains in employment at food manufacturing plants. Compared with September, 1937, total working forces were 18 per cent less and payrolls 23 per cent lower.

The accompanying diagram shows seasonally adjusted indexes of total factory employment and of its two major components, employment in durable goods and nondurable goods industries. Employment in the durable goods industries is subject to much greater variation than employment in the nondurable goods industries. In the present business upturn the number of workers at durable goods plants has increased about 7 per cent from the recent low, representing a recovery of 13½ per cent of the preceding decline. Employment in nondurable goods industries, while gaining only 5½ per cent from the low, has eliminated 28½ per cent of the loss occurring between May, 1937 and June, 1938.

New York State factory employment and payrolls continued in September the increases which began in July. Additions of 5 per cent to working forces and 7½ per cent to wage disbursements during the month again represented more than the average seasonal advances. Practically all of the major industrial groups reported increased employment; the largest gains occurred at clothing and millinery, and metal and machinery factories. In each of the seven principal industrial centers of the State employment and payrolls were higher. Compared with a year ago the number at work in New York State factories was 12 per cent lower and payrolls were 13 per cent less.

Building

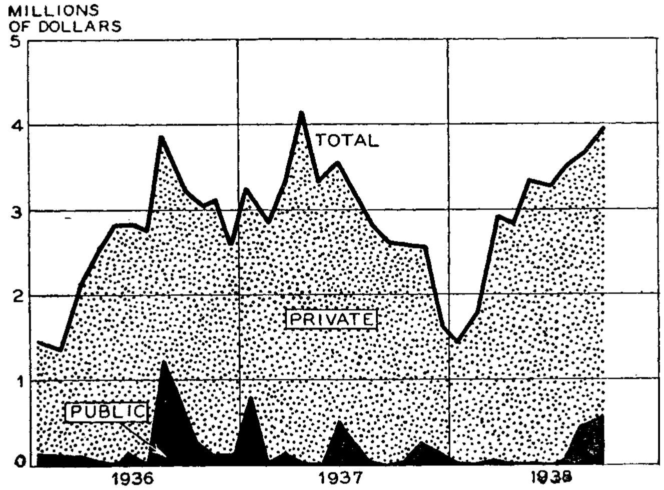
Two large residential projects in New York City were responsible for a further increase in the rate of construction contract awards in the New York and Northern New Jersey area during September. Total contracts were more than double the figure for September, 1937. During the month the United States Housing Authority placed its first sizable contract for the Red Hook housing development and the Metropolitan Life Insurance Company awarded a large contract covering the first unit of its housing project in the Borough of the Bronx. Augmented by these projects, the daily average of residential awards advanced 85 per cent over the August rate. Contracts for nonresidential building were also higher, but these gains were offset in part by a reduction in awards for heavy engineering work which had been unusually high in August. For the first nine months of 1938, total construction contracts were 5 per cent larger than in the comparable period of 1937; a large increase in contracts for heavy engineering work and a small rise in residential work exceeded reductions in the nonresidential building classifications, as the following table indicates.

Percentage Change in Average Daily Contracts

	N.Y. and Northern N.J.		37 States	
	Sept. 1938 compared with Aug. 1938	Jan.-Sept. 1938 compared with Jan.-Sept. 1937	Sept. 1938 compared with Aug. 1938	Jan.-Sept. 1938 compared with Jan.-Sept. 1937
Building				
Residential	+85	+ 2	+ 8	— 7
Commercial and industrial	+14	—24	—10	—50
Public purpose*	+42	— 7	+26	+ 9
All building	+62	— 6	+11	—16
Engineering				
Public works	+ 4	+20	+ 2	+27
Public utilities	—78	+39	—26	— 6
All engineering	—47	+29	— 6	+16
All construction	+ 5	+ 5	+ 4	— 7

* 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 total contract awards in September exceeded the August average by 4 per cent. Residential contracts, influenced by the aforementioned large New York City projects, increased 8 per cent and contracts for various public purpose buildings advanced 26 per cent, but awards for commercial and industrial building and for heavy engineering construction were lower than in August. Total contracts in September were 45 per cent higher than in September, 1937, an increase in which all of the major classifications, with the exception of commercial and industrial building, shared. For the first nine months of 1938 total contracts were 7 per cent lower than in the same period last year.



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

The accompanying diagram shows the course of residential building in 37 States from the beginning of 1936 to date, classified according to ownership. Following a pronounced contraction in the latter part of 1937, private residential activity increased considerably through May, 1938, but has since shown only a moderate further rise. Large contracts for residential projects under public auspices recently, however, have brought the total of residential contracts to a level closely approximating the high point of 1937 which was reached in April. The several peaks in public ownership contracts during 1936 and 1937, indicated in the diagram, reflect contracts placed by the Public Works Administration for large housing developments in New York, Chicago, Minneapolis, and Cincinnati. The September figure includes the first sizable contract by the United States Housing Authority—for the Red Hook housing project in New York City.

Data for the first three weeks of October indicate a further increase in construction contracts. The daily rate for all contracts in this period exceeded the September rate by 18 per cent; nonresidential and heavy engineering awards showed large contraseasonal gains, while residential contracts registered about the usual moderate advance. Compared with the corresponding period of October of last year, total contracts were 71 per cent higher; heavy engineering work increased 82 per cent, nonresidential awards 74 per cent, and residential contracts 56 per cent.

Commodity Prices

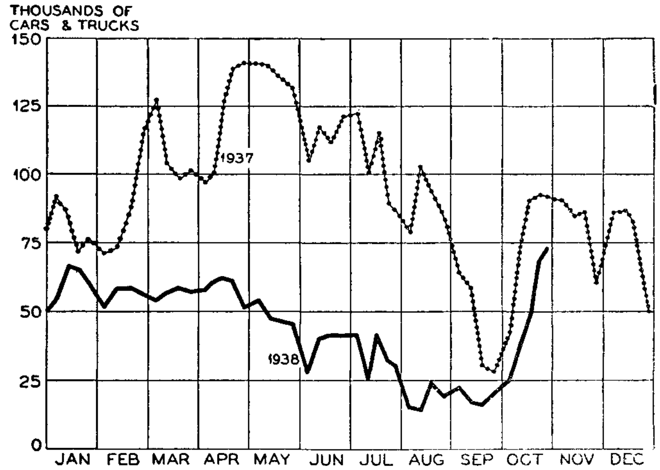
Prices of a number of industrial raw materials increased during October. This advance was reported to have reflected not only speculative buying on the futures exchanges, but also an increase in trade and manufacturing demand. Spot copper, which advanced ¼ cent in the previous month, increased ⅞ cent further during the first two weeks of October to 11¼ cents a pound, a new high for the year. Following the announcement on October 17 of the lifting of all restrictions on foreign production by the foreign copper cartel, rather substantial reductions occurred in copper futures and in export copper; spot copper, however, continued at 11¼ cents during the remainder of the month. Among the other principal nonferrous metals, the price of tin advanced about 1½ cents to 46 cents a pound and zinc increased 10 points to 5.05 cents a pound, while lead held steady at the level reached during September.

In the first week of October crude rubber rose to 17½ cents a pound, the highest level in about a year, but subsequently declined to close the month at 16¾ cents, the same price as at the end of September. With respect to fibers, the average price of spot cotton at 10 southern markets increased 44 points during October to 8.69 cents a pound, raw silk rose 3 cents to $1.83½ a pound, and a moderate advance also occurred in wool prices. Cotton prices were temporarily depressed by the release of the Government October 1 cotton crop estimate, which placed this year's harvest at 12,212,000 bales, or 387,000 bales above the previous month's estimate and nearly 600,000 bales above the average of private forecasts, but this influence was subsequently counterbalanced by reports of increased sales of cotton cloth and of a heavy movement of the staple into the Government loan stock. Hide prices were increased 2½ cents to 14½ cents per pound. Small net gains for the month also were shown in wheat prices, which were strengthened somewhat toward the end of October by several developments, including reports of unfavorable weather conditions in the newly seeded winter wheat area. On the other hand, cash corn at Chicago declined on October 17 to 43⅝ cents a bushel, the lowest since April, 1934, and closed the month at 44⅝ cents, for a net loss of 6 cents. The average price of hogs at Chicago also declined during October, as is frequently the case at this time of year.

Scrap steel prices continued to move somewhat lower in October; the quotation at Pittsburgh receded 50 cents further to $14.75 a ton. Quotations for sheet and strip steel were reduced rather substantially during the first half of October, but later in the month these prices were restored to the former levels.

Production and Trade

Available weekly information indicates that the general level of business activity continued during October the advance which began in June. The operating rate at steel mills rose to 54 per cent of capacity in the final week of the month, representing the highest level of activity within the past twelve months and a gain of 7 points from the end of September. Reflecting attainment of large scale production of new models, assemblies of passenger cars and trucks rose rapidly during the month. The accompanying diagram shows the rise in automobile production during October, and also the reduced disparity between assemblies this year and last. Production has recently been running only about one-fifth less than a year ago, as compared with as much as two-thirds less from May to August. The generation of electric power, bituminous coal mining, cotton mill activity, and the movement of freight over the railroads were seasonally higher in October. However, for the first three weeks of the month department store sales in this district appear to have shown less than the usual seasonal rise over September.



Estimated Weekly Production of Passenger Cars and Trucks in the United States and Canada (Ward's Automotive Reports, Inc. data)

During September business activity rose further following the pronounced gains in July and August. There were increases in steel production, pig iron output, copper mining, bituminous coal output, plate glass production, tire manufacturing, and meat packing. Automobile assemblies, which had reached a low point in August,

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

	1937	1938		
	Sept.	July	Aug.	Sept.
Industrial Production				
Steel	103	48	59	63
Copper	110	42	58	65*p*
Passenger cars	145	30	29	49
Motor trucks	124	51	47	40
Bituminous coal	93*r*	66	70	76*p*
Crude petroleum	98	85	88	84*p*
Electric power	96	87	90*p*	89*p*
Cotton consumption	102	91	95	90
Wool consumption	82*r*	92	107	94*p*
Shoes	91	105	108*p*	99*p*
Meat packing	82	81	87	90
Tobacco products	93	86	91	90
Cement	59	54	52	54
Machine tool orders*	206	89	103	111
Employment				
Employment, manufacturing, U. S.	102	78*r*	80	82*p*
Employee hours, manufacturing, U. S.	89	65	69	71*p*
Construction				
Residential building contracts	27	39	43	41
Nonresidential building and engineering contracts	44	47	66	61
Primary Distribution				
Car loadings, merchandise and misc.	88*r*	70	72	75
Car loadings, other	92	68	66	70
Exports	86	84	84	78
Imports	92	64	79	76
Distribution to Consumer				
Department store sales, U. S.	89	81	81	83
Department store sales, 2nd District	83	77	76	80
Chain grocery sales	94	98	102	105*p*
Other chain store sales	98	94	89	92
Mail order house sales	98	87	89	90
New passenger car registrations	112*r*	41*r*	44	
Money Payments				
Bank debits, outside New York City	66	56	56	58*p*
Bank debits, New York City	37	35	32	34*p*
Velocity of demand deposits, outside New York City**	69	61	59	61
Velocity of demand deposits, New York City**	45	40	36*r*	38
General price level‡	161	155	154	154*p*
Cost of living‡	153	149	148	148*p*
Composite index of wages†	111	110	109	109*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.

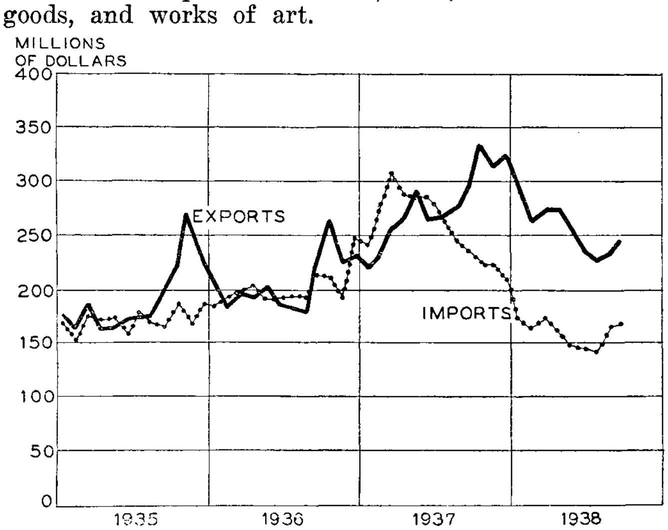
were maintained at about that level in September instead of declining as in other recent years. On the other hand, the usual seasonal expansion in textile mill operations failed to take place and production of shoes was reduced.

Series reflecting the rate of distribution of goods, such as freight shipments by railway, and sales of department stores, mail order houses, and chain store systems, displayed a general tendency for a more than usual rise from August to September.

Foreign Trade

During September the foreign merchandise trade of this country continued the rise which began in August. Exports in September amounted to $246,000,000 as compared with $231,000,000 in August, and $297,000,000 a year ago, and imports totaled $168,000,000 as against $166,000,000 in August and $233,000,000 last year. Prior to August of this year, imports had been declining almost without interruption since early in 1937, while exports had been declining since the end of 1937, as the accompanying diagram indicates. Beginning in September, 1937 a substantial monthly export balance developed which has been maintained ever since that time; the excess of exports of $79,000,000 in September of this year, although somewhat smaller than in most months of the past year, remained larger than in September a year ago. Increased foreign takings of American manufactured goods throughout 1937, and comparatively heavy exports of grains in 1938 (due to the relatively large grain crops in this country and shortages elsewhere last year), combined with a decline in nearly all types of imports, were the factors primarily responsible for the maintenance of the United States export balance.

The monthly increases in the total value of exports since July have been due principally to seasonal expansion in shipments of certain crude materials, chiefly unmanufactured tobacco and raw cotton. Exports of dried and canned fruits likewise have recently shown material gains. Among the imports, gains in the aggregate value since July have been the result mainly of increased receipts of crude rubber, raw silk, and such manufactured products as silk, wool, and other textile goods, and works of art.



United States Exports and Imports of Merchandise

Compared with a year ago, a majority of leading individual exports continued to show declines in September, while increased shipments occurred in the case of most crude and manufactured food products, unmanufactured tobacco, aircraft, industrial machinery, electric refrigerators, copper, and cotton manufactures. Decreases from September, 1937 were general among the imports; the only notable exceptions in quantity and value were in receipts of sugar and coffee. Imports of raw silk, while 17 per cent larger in quantity than a year ago, were slightly smaller in value, due to the reduction in price.

Department Store Trade

For the first three weeks of October, department store sales in this district appear to have shown less than the usual seasonal rise, and were about 11 per cent lower than in the corresponding period of 1937.

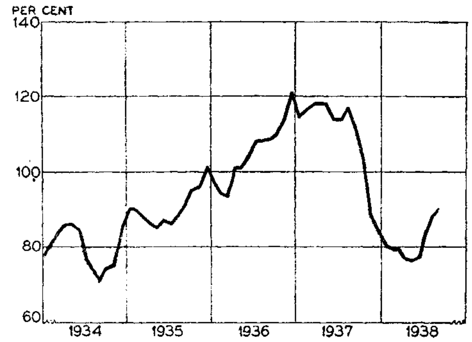
September sales of the reporting department stores in this district were about 5½ per cent lower than last year, and apparel store sales were about 8 per cent less, both smaller declines than in the four preceding months. Department stores in New York and Brooklyn, Buffalo, Northern New Jersey, Westchester and Stamford, Central New York State, and Niagara Falls recorded the smallest reductions in sales from a year ago since April.

Stocks of merchandise on hand in the department stores, at retail valuation, were 14 per cent lower at the end of September, 1938 than at the end of September, 1937, and apparel store stocks were 13 per cent lower. Collections of accounts outstanding were slightly lower than a year ago both in the department and in apparel stores.

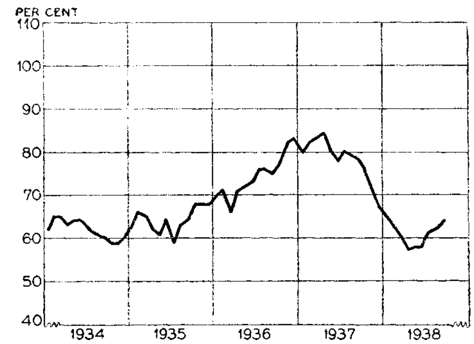
Locality	Percentage change September, 1938 compared with September, 1937		Per cent of accounts outstanding August 31 collected in September	
	Net sales	Stock on hand end of month	1937	1938
New York and Brooklyn	— 6.2	—14.0	46.4	46.1
Buffalo	— 7.6	—10.8	40.7	38.6
Rochester	— 3.0	—14.0	50.9	51.5
Syracuse	— 4.1	—11.2	38.3	40.2
Northern New Jersey	— 2.3	—17.6	39.5	38.0
Bridgeport	—13.6	—10.8	37.4	34.8
Elsewhere	— 7.8	— 7.3	31.2	30.6
Northern New York State	— 3.9	......	....	....
Southern New York State	— 8.5	......	....	....
Central New York State	—12.3	......	....	....
Hudson River Valley District	— 4.5	......	....	....
Westchester and Stamford	— 8.4	......	....	....
Niagara Falls	— 8.2	......	....	....
All department stores	— 5.7	—14.1	43.1	42.3
Apparel stores	— 7.8	—13.0	37.7	36.9

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

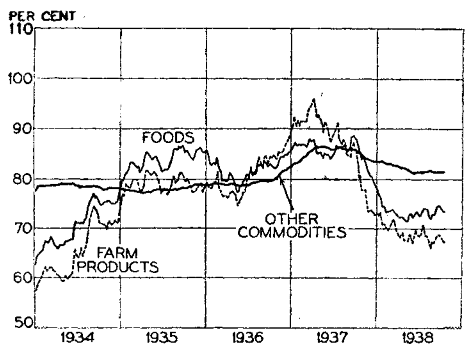
	1937	1938		
	September	July	August	September
Sales, unadjusted	100	62	64	94
Sales, seasonally adjusted	96	88	86	90
Stocks, unadjusted	95r	69	75	82
Stocks, seasonally adjusted	91r	79	79	78



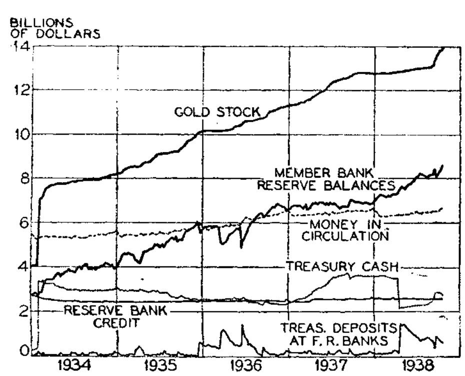
Index Number of Production of Manufactures and Minerals Combined, Adjusted for Seasonal Variation (1923-25 average = 100 per cent)



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



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



Member Bank Reserves and Related Items (Latest figures are for October 19)

Business Conditions in the United States

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

In September industrial production and employment continued to advance, and there was also an increase in the volume of retail trade. Building activity continued at the increased level reached in August, reflecting a large volume of awards for publicly financed projects.

Production

Volume of industrial production increased further in September and the Board's seasonally adjusted index advanced to 90 per cent of the 1923-1925 average as compared with 88 per cent in August. There was a substantial rise in pig iron production and output of steel ingots continued to increase, averaging 45 per cent of capacity. In the first three weeks of October activity at steel mills showed a further increase and was at a rate of about 50 per cent of capacity. Plate glass production continued to advance rapidly in September. Output of lumber and cement was maintained, although at this season activity in these industries usually declines. Automobile production in September remained at about the same low rate as in August; in October, however, output increased rapidly as most manufacturers began the assembly of new model cars. In the nondurable goods industries there were substantial increases in activity at meat packing establishments, sugar refineries, and tire factories. Output of shoes declined somewhat. Textile production, which had been rising sharply since spring, showed little change in September, although an increase is usual. Activity increased further at silk mills but at wollen mills there was a decline, and at cotton mills output did not show the usual seasonal rise.

At mines, coal production increased considerably in September and there was also an increase in output of copper. Crude petroleum output declined as wells in Texas were shut down on both Saturdays and Sundays whereas in August only Sunday shutdowns had been in effect.

Value of construction contracts awarded, which had increased considerably in August, showed little change in September, according to figures of the F. W. Dodge Corporation. Awards for private residential building continued at the advanced level prevailing since early summer and contracts for public residential projects were also maintained following a rise in the previous month. Other public projects continued in substantial volume.

Employment

Employment and payrolls increased further between the middle of August and the middle of September, reflecting principally increases at manufacturing concerns. Employment rose sharply at automobile factories and increased moderately in other durable goods industries. At factories producing nondurable goods there was slightly more than the usual seasonal rise in the number employed.

Distribution

Distribution of commodities to consumers showed a more than seasonal rise in September. There were increases in sales at department and variety stores and mail order sales also increased. Department store sales for the first three weeks of October showed somewhat less than the usual seasonal rise.

Freight car loadings continued to increase in September and the first half of October, reflecting chiefly a further rise in shipments of coal and miscellaneous freight.

Commodity Prices

Prices of a number of industrial raw materials, particularly hides and copper, advanced from the middle of September to the third week of October. Crude oil and gasoline prices, on the other hand, were reduced. Livestock and meat prices showed large seasonal declines in this period. In the first half of October there were sales of many finished steel products at prices below those announced for the fourth quarter, but in the third week of the month it was reported that prices had been restored to former levels.

Bank Credit

During the four weeks ended October 19 there were further substantial increases in the gold stock of this country. As a result largely of these gold acquisitions and of net expenditures by the Treasury from its deposits with the Reserve Banks, excess reserves of member banks increased to a total of $3,270,000,000 on October 19.

Demand deposits at reporting member banks in 101 leading cities were also increased by the inward gold movement and on October 19 amounted to $15,750,000,000, the largest volume ever reported by these banks. Following substantial increases during September, reflecting purchases of new issues of United States Government obligations, total loans and investments at reporting banks showed little change during October.

Money Rates and Bond Yields

The average yield on long term Treasury bonds declined from 2.48 per cent on September 27 to 2.28 on October 21. Yields on Treasury notes and Treasury bills also declined in the period.