MONTHLY REVIEW
of Credit and Business Conditions
Second Federal Reserve District

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

Money Market in November

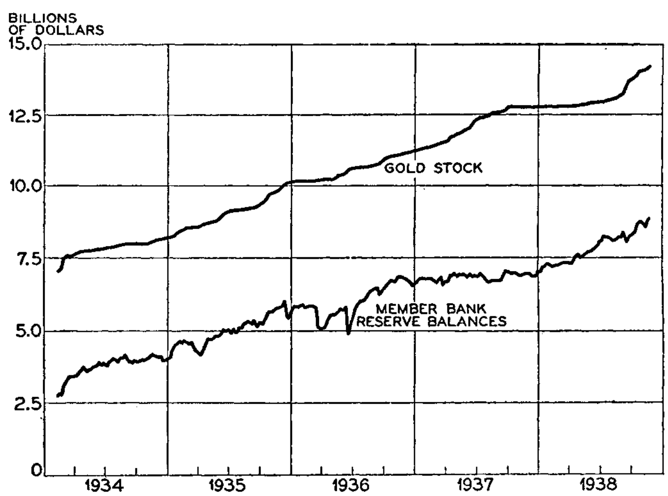
The outstanding feature of the money market, during the past month, has been the continued flow of funds from London to New York, the resulting weakness in sterling exchange, and the accompanying movement of gold to the United States. Although the immediate threat of war in Europe was averted near the end of September, lack of confidence in the stability of the European political situation is reported to have been a continuing cause of capital movements to the United States. The burden of meeting this demand for dollars has fallen largely upon the London market, as London has been for some time the largest depository abroad for foreign funds.

Another factor in the downward course of sterling, which has now proceeded irregularly since February, 1938, has been the large excess of merchandise exports over imports of the United States. The sudden emergence about a year ago of a large export surplus in this country's foreign trade, chiefly as a result of the rapid decline in business activity and the accompanying curtailment of merchandise imports, had as its counterpart, from a world standpoint, substantial adverse changes in the balance of payments of Great Britain and of the large group of Empire and other raw material producing countries which maintain their international reserves in the form of sterling balances. This group of countries covered the deficits in their international accounts largely by drawing upon their balances in London. The resulting demand for dollar exchange was at first offset to a considerable extent by the liquidation of accumulated foreign balances in New York, a process which was assisted by rumors of impending further devaluation of the dollar, which for a time were widely circulated abroad. During the third quarter of 1938 the commercial demand for dollars became a more active factor in the exchange market and contributed substantially to the pressure against sterling exchange.

In November, however, this factor is thought to have been less important than the capital movement, as it is believed that a substantial part of the requirements for dollars to pay for exports from this country during the fall season were covered by anticipatory purchases of dollars in August and September, at the time when the European situation appeared to be most critical. Moreover, there are indications of some abatement of the commercial demand for dollars as a result of an increase in this country's merchandise imports, accompanying the upturn in business activity here, while the raw material producing countries have made considerable progress in adjusting their imports to the reduced value of their exports.

The persistent weakness in sterling exchange in recent months appears to have led to speculative operations against sterling that have augmented the movement of capital from London. In periods of weakness in sterling during the latter part of November, some of the other European exchanges, notably the Dutch, Swiss, and Belgian currencies, have been fairly strong, and even the French franc, which earlier in the year had shown the most acute weakness, has shown a considerable degree of stability against the pound.

The movement of funds to this country from London has been accompanied by a practically continuous flow of gold from London to New York. Largely as a result of these shipments, the United States gold stock has risen to successively higher levels, the increase in November being approximately $245,000,000, following an increase of $929,000,000 in September and October. As the accompanying diagram shows, this country's gold stock, in a period of less than five years—since the end of January, 1934, when the gold stock was revalued at $35 an ounce—has more than doubled, rising from about 7 billion dollars to well over 14 billion. During the same period, member bank reserves have trebled, increasing



Changes in United States Gold Stock and Member Bank Reserve Balances since January, 1934

from less than $3,000,000,000 to over $8,800,000,000. The increase in bank reserves has been somewhat less in absolute amount than the increase in the gold stock, largely because of the rising trend of currency circulation in this country. At times the volume of member bank reserves has been affected also by other factors, such as large changes in Treasury balances with the Federal Reserve Banks, silver purchases, the gold sterilization policy from December, 1936 to September, 1937, and the desterilization of gold by the Treasury in September, 1937, and again in 1938. But in general, the rise in bank reserves has been roughly parallel to, and has had its origin chiefly in, the increase in the gold stock.

Excess reserves, despite the increase of nearly 75 per cent in the percentages of reserves which member banks are required to maintain against their deposits, have now risen above the previous peak which was reached in December, 1935. This movement may be interrupted during the next month by the holiday currency demand, and, in the event of an issue of Government securities on December 15 to raise new money for the Treasury, by cash payments for such securities, but these influences are temporary factors and will not permanently offset further gold inflows.

A considerable part of the recent increase in excess reserves has been concentrated in New York City, partly because most of the incoming foreign funds have been deposited in New York, partly because of commercial transfer of funds to New York, and partly because banks in other parts of the country have continued to follow the practice of transferring substantial amounts of their surplus funds to their balances with the large New York City banks. At the same time that excess reserves of New York City banks have been rising to new high levels, the balances which they hold for out-of-town banks have risen close to the previous maximum, which was reached in the autumn of 1936.

The inflow of foreign funds and the rise in the gold stock have been accompanied also by an increase in the adjusted demand deposits of the weekly reporting New York City banks to new high levels. In other principal cities also, such deposits rose at the end of October above their previous maximum, but subsequently declined somewhat, apparently reflecting in part an increase in the amount of currency in circulation, and in part transfers of deposits to New York.

Member Bank Credit

Total loans and investments of all weekly reporting member banks, after reaching at the end of October the largest volume since last December, receded somewhat during November. The principal factor in the decline was a reduction of $176,000,000 in the investments of the New York City banks, including a decline of $38,000,000 in Government securities, and a reduction of $136,000,000 in other securities due to repayments of temporary State and municipal borrowings. There were also further small declines in commercial loans, which apparently reflected seasonal repayments of temporary business borrowing. Banks in other principal cities showed little change in their loans and investments in November.

Money Rates

Accompanying the further accumulation of excess reserves in member banks, a condition of great ease persisted in the short term money market. The prevailing rate on prime commercial paper declined slightly further during the month, and yields on Treasury bills dropped below the low level reached at the end of October. Yields on longer term securities, however, advanced slightly, apparently reflecting the combined effect of continued uncertainty concerning the European situation and the expectation of further such issues of Government securities in December to finance the excess of Government disbursements over current receipts.

Money Rates in New York

	Nov. 30, 1937	Oct. 31, 1938	Nov. 29, 1938
Stock Exchange call loans	1	1	1
Stock Exchange 90 day loans	*1¼	*1¼	*1¼
Prime commercial paper—4 to 6 months	1	⅝–¾	⅝
Bills—90 day unindorsed	7/16	7/16	7/16
Customers' rates on commercial loans (Average rate of leading banks at middle of month)	1.63	1.63	1.63
Average yield on Treasury notes (3–5 years)	1.30	0.69	0.68
Average yield on Treasury bonds (more than 8 years to maturity or call date)	2.57	2.27	2.32
Average rate on latest Treasury bill sale			
91 day issue	....	0.03	0.02
107 day issue	0.12	....	....
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.

Government Securities

Turnover in the Government security market was unusually small during November. Although the portfolios of some institutional investors were readjusted in preparation for the Treasury's mid-December financing operations, there was a general disposition on the part of most holders of Government securities to await the announcement of December 15 offerings. Treasury bond prices receded moderately from the high level which had prevailed during the second half of October, and an average of quotations for Treasury bonds of more than eight year term to call date or maturity showed a decline of about ⅝ of a point, offsetting about one third of the advance recorded between September 27 and the middle of October.

Accompanying the gradual downward movement in Treasury bond quotations, the prices of the longer maturities of Treasury notes also eased slightly during the first half of November, with the result that the average yields of Treasury notes maturing in three to five years rose from 0.69 per cent at the end of October to 0.73 per cent. In the latter part of the month, however, the prices of notes fully recovered and the yields receded to an average of 0.68 per cent.

The November weekly offerings of Treasury bills were marketed at rates ranging between 0.021 and 0.027 per cent. The five $100,000,000 issues floated in November replaced equivalent maturities.

Commercial Paper and Bills

During November sales of commercial paper at ⅝ per cent increased and this rate became established as the ruling quotation for average grade prime 4 to 6 month material. A range of 5/8-3/4 per cent had prevailed since September. The highest grade paper, when available, was sold at 1/2 per cent, and while there continued to be transactions at 3/4 per cent, this rate applied primarily to paper of the smaller, less well known concerns. The volume of business done in the commercial paper market remained limited by the small quantity of new paper currently acquired by dealers for resale, owing in part to seasonal influences. A total of $213,100,000 of paper was outstanding through commercial paper houses reporting to this bank at the end of October, as against $212,300,000 in September, and $323,400,000 in October, 1937.

The bill market remained extremely quiet, as in a number of months past. The continued active demand for bankers acceptances remained largely unfilled, as offerings in the market were very small. Seasonal influences resulted in a further increase of $9,000,000 in the amount of bankers acceptances outstanding at the end of October. The largest component was a rise, for the third successive month, of $5,000,000 in import bills. Domestic warehouse credits also increased an additional $3,000,000. Compared with a year ago, however, the volume of bills outstanding at the end of October showed a decline of $76,000,000, due to decreases of $33,000,000 in import bills, $25,000,000 in export bills, and $16,000,000 in domestic warehouse credits.

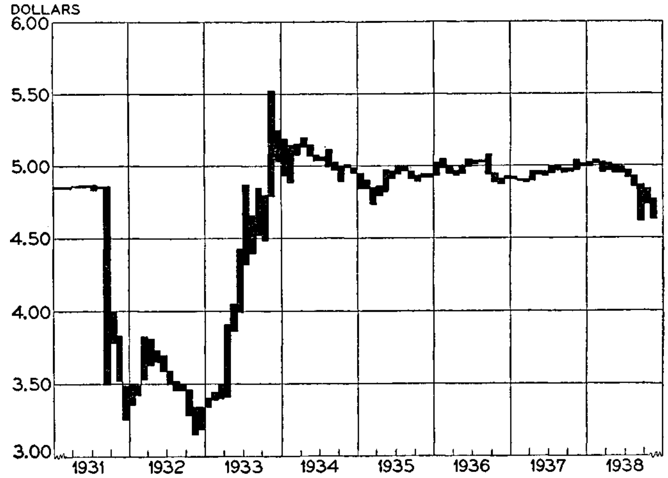
(Millions of dollars)

Type of acceptance	Oct. 30, 1937	Sept. 30, 1938	Oct. 31, 1938
Import	127	89	94
Export	82	57	57
Domestic shipment	8	9	10
Domestic warehouse credit	66	47	50
Dollar exchange	1	2	3
Based on goods stored in or shipped between foreign countries	62	57	56
Total	346	261	270

Foreign Exchanges

Sterling exchange was under heavy adverse pressure in foreign exchange markets during November, and quotations for the pound depreciated sharply from $4.75½ on October 31 to $4.62 11/16 on November 26 before recovering to $4.68½ on the 30th. The level of $4.62 11/16 was the lowest rate, with the exception of the brief period in the morning of September 28 when sterling reached $4.61, since October, 1933. The price of gold in London at the fixing was bid up during the same period from 146s ½d on October 31 to a new all-time high record at 150s on November 26.

During the first third of the month, the pound moved narrowly around the level of $4.76 which had been maintained since shortly after the middle of October. The outbreak of a German campaign against the Jews in retaliation for the assassination of an official in the German embassy in Paris tended to accentuate a feeling of pessimism regarding the general European political outlook, and the pound became subject to heavy selling pressure. This pressure carried the pound to a level of $4.70 which was held for a brief period, but quotations began to fall with comparative rapidity after November 21, owing to increasing discouragement over the European political prospect, which was then disturbed by



Monthly Range of High and Low Quotations for Sterling Exchange at New York

agitation for the further partition of Eastern Czechoslovakia. The pace of the decline gave rise to further circulation of rumors of an agreement between British and American authorities for a lower sterling rate, despite the previous refutation of similar rumors upon the publication of the Anglo-American trade agreement on November 17.

The French franc moved closely in sympathy with the pound in the New York market, closing at $0.0261 1/16 on November 29, compared with $0.0266 1/16 on October 31. Before the middle of the month, however, the resignation of Finance Minister Marchandeau was followed by the appointment of Paul Reynaud to the post and by the promulgation of 44 decrees embracing his recovery program for France, issued under the provisory powers accorded the Daladier government by the French Parliament on October 5. The announcement of this program, which included new taxation to balance the ordinary budget, a revaluation of the gold stock of the Bank of France on the basis of 27.5 milligrams of gold to the franc, or about 170 francs per pound, and the suspension of the 40-hour week for a period of three years, was made on the evening of November 12 and was followed, when exchange markets opened on November 14, by a brief period of covering short positions in the franc. The size of this covering movement was approximately indicated by Finance Minister Reynaud's statement to the Financial Committee of the Chamber of Deputies on November 23 that the French Stabilization Fund had acquired 1,500,000,000 francs of gold since November 1. The refusal of Socialist groups in the Parliament to support the program, and the outbreak of widespread strikes against the suspension of the 40-hour week slowed down the covering movement, but the strong measures undertaken by the French Government to suppress strikes were favorably interpreted by those groups in France which hold capital abroad, with the result that in the last few days of the month the flow of funds to France was resumed on a considerable scale.

Among the other European currencies, the belga remained firm against the dollar at a level of $0.1691½ and appreciated against sterling from 28.16 to 27.54 belgas per pound. The guilder and the Swiss franc declined in sympathy with the pound from \$0.5444 and \$0.2270½, respectively, on October 31, to \$0.5405 and \$0.2260 on November 14, before breaking loose from the pound and firming in New York back to \$0.5442 and \$0.2273 on November 29. In terms of the pound sterling these currencies remained relatively steady at 8.75 guilders per pound and 20.95 Swiss francs per pound, respectively, until November 14, after which they appreciated to 8.56 and 20.49.

With respect to other currencies, Canadian exchange failed to respond to the weakness in sterling, and its quotations fluctuated only slightly from the discount of ⅝ per cent with which it had opened the month. The Argentine official selling rate for sterling was changed on November 8 for the first time since December 10, 1936, from 16 pesos to the pound sterling to 17, and the regulation requiring prior permits for importers buying official exchange was extended, as of December 1, to those importers who had been buying their exchange in the free market. The official buying rate was left unchanged at 15 pesos to the pound, equivalent to about \$0.311 in this market, compared to \$0.274 at the new selling rate. Free pesos weakened on the change from \$0.2515 to \$0.2400, and later eased from this level to \$0.2260. Other rate changes in Latin America were nominal or unimportant. In the Far Eastern area, yen quotations fluctuated closely with the pound sterling, and the Shanghai dollar quotations continued nominal around \$0.16.

Gold Movement

During November, gold imports affecting the United States gold stock included receipts at New York totaling \$84,600,000, of which \$73,800,000 came from England, \$6,600,000 from Canada, \$3,500,000 from India, and \$700,000 from Holland; also receipts on the West Coast of \$14,400,000, of which \$5,900,000 came from Japan, \$5,600,000 from Australia, and \$2,900,000 from China.

In addition, there was a gain to the gold stock through the release of \$11,900,000 from foreign earmarked holdings. As a result of these reported transactions plus other acquisitions by the Treasury concerning which no details were reported, the United States gold stock was increased by approximately \$245,000,000 during November.

Central Bank Rate Changes

Effective November 25 the discount rate of the Bank of France was reduced to 2½ per cent from 3 per cent, a level to which it had been raised on September 28, 1938. Simultaneously, the rate for 30 day advances on specified Government securities was lowered from 3 to 2½ per cent, and the rate for 3 month advances on other eligible collateral was brought down from 4 to 3½ per cent.

Security Markets

Chiefly reflecting sharp advances on the day preceding and that following Election Day, the available averages of stock prices rose further early in November to a new high level since the early autumn of 1937. Stock Exchange turnover on Wednesday, November 9, at 3,100,000 shares, represented the largest single day's trading in over a year, and on that day the Standard Statistics Company's ninety stock index reached a figure 25 per cent above its late September low, and 62 per cent above the extreme low of last March. Market turnover remained heavy in the two subsequent trading sessions, and prices held close to their peak levels. Shortly before the middle of the month, however, the upward movement of stock prices was reversed, and the declining tendency during the remainder of the month carried the Standard Statistics index to a point about 10 per cent below its early November peak, thereby canceling half of the advance since late September. Railroad stocks, which had advanced especially rapidly during the previous period of rising prices, subsequently showed a somewhat larger decline than industrial shares. Market turnover was small during the latter part of November, exceeding 1,000,000 shares on only two days.

Averages which reflect the price movements of both high grade and medium grade corporation bonds advanced during the early part of November, and, despite a somewhat easier tendency in the second half of the month, showed small net gains for the month as a whole. With the exception of rather marked declines in Austrian, Czechoslovakian, Polish, and Brazilian issues, most foreign dollar bonds showed relatively small price changes in November.

New Financing

The total of new corporate security issues during November was about \$170,000,000, or half of the revised total for October. Some \$73,000,000 of the November financing, however, was for new capital, an amount \$25,500,000 greater than in October. Eighty-five per cent of the November total, \$145,000,000, was placed privately, mainly with insurance companies, without being underwritten or offered publicly. The four largest corporate issues during the month, all placed privately, were:

- \$40,000,000 Goodyear Tire and Rubber Company first mortgage and collateral trust 3½'s of 1958, for refunding;
- 34,000,000 Commonwealth Edison Company first mortgage 3½'s of 1968, at 104, \$19,900,000 for refunding;
- 30,000,000 Philadelphia Electric Company 3¼ per cent bonds for new capital;
- 15,000,000 Connecticut Light and Power Company first and refunding mortgage 3¼'s of 1968, partly for new capital.

Municipal bond awards during the month amounted to about \$150,000,000. Large issues were sold by the Commonwealth of Massachusetts, the State of Connecticut, and the City of New York. Massachusetts sold \$19,400,000 of hurricane and flood damage 0.75 per cent bonds, due 1939-1943, at a price of 100.19 per cent of par. A \$25,000,000 Connecticut issue of 1½ and 1¾ per cent bonds, due in 1 to 20 years, the only funded debt of the State, was awarded at a net interest cost of 1.5116 per cent, and was reoffered by the winning syndicate to yield from 0.15 to about 1.67 per cent according to maturity. The New York City flotation was divided into two parts: \$25,000,000 serial bonds maturing in 1939 to 1973, awarded as 3's; and \$15,000,000 assessment bonds maturing in 1940 to 1944, awarded as 2¼'s. The net interest cost of the winning bid, covering both issues, was 2.883 per cent.

Two large issues of foreign government bonds were sold during November. One, $25,000,000 of sinking fund 4½'s, due 1948, of the Argentine Republic, priced at 95½, was the first new capital issue for a foreign government other than the Canadian Provincial or Dominion Governments that has been sold in this market since 1930. During recent years Argentina has retired over $115,000,000 of dollar bonds, in addition to amortization payments of about $35,000,000. The second foreign government issue in November was the sale by the Dominion of Canada of $40,000,000 of 3 per cent bonds of 1968 at 97¼, to refund notes due January 1, 1939.

Business Profits

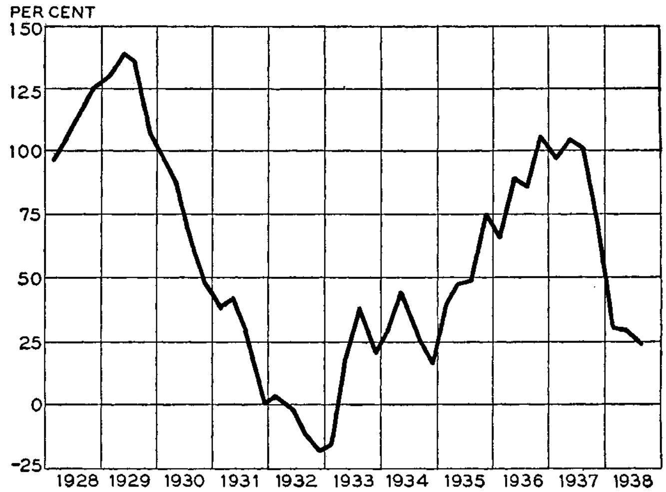
Combined third quarter net profits, less deficits, of 254 industrial and mercantile companies whose quarterly earnings reports are available not only for that period, but also for several preceding years, were 68 per cent smaller than in the corresponding period last year—about the same reduction as in the first half of 1938, despite the substantial rise in industrial production between the second and third quarters of this year. Excluding the automobile industry, there appears to have been a rise in profits of slightly more than the usual seasonal proportions in the third quarter, but, reflecting the low level of automobile output during much of the period, the reporting automobile companies showed a more than seasonal reduction. Consequently, the accompanying diagram indicates a further decline in this bank's seasonally adjusted index of net profits of 167 industrial and mercantile companies. The index for the third quarter of 1938 was at approximately the same level as in the third quarter of 1934, shortly before the 2½ year rise that terminated in 1937, got under way.

Two groups of companies, the food and food products companies and the motion pictures and amusements group, had slightly larger profits in the third quarter of 1938 than in the corresponding period in 1937, but three groups—automobile parts and accessories, coal and coke, and steel—sustained third quarter losses, as compared with profits last year, and all other groups had smaller profits than a year ago. The largest declines were reported by the automobile, machinery and tool, and railroad equipment groups, while the smallest declines were reported by the clothing and textile, household equipment, office equipment, and cigar company groups.

An analysis of the reports for individual companies that are included in the table indicates that 27 per cent of the total operated at a loss during the third quarter of 1938, a smaller proportion than in either the first or second quarters of the year, but three times as many as in the third quarter of 1937.

For the first nine months of this year, net profits of the 254 companies showed the same percentage decline from last year as for the third quarter. The outstanding case of an increase in profits over last year, however, is not shown in the table because quarterly earnings reports for the industry are available only for a limited period; that is the aviation industry, which for the first nine months of this year showed profits 55 per cent larger than in the corresponding period of last year. As compared with the first nine months of 1934, when the industrial production index was at approximately the same level, aggregate net profits of the 254 companies in the corresponding period of this year were 12 per cent lower, chiefly because of smaller profits in the reporting automobile companies and larger losses in the steel companies than in 1934.

Class I railroads, after showing in the first half of the year the largest deficit for any corresponding period on



Index of Profits of 167 Industrial and Mercantile Corporations, Adjusted for Seasonal Variation (1925-29 average=100 per cent)

(Net profits in millions of dollars)

Corporation group	No. of Cos.	Third Quarter 1934	Third Quarter 1937	Third Quarter 1938	First nine months 1934	First nine months 1937	First nine months 1938
Advertising, printing and publishing	5	1.7	1.4	0.5	5.4	7.0	2.9
Automobiles	9	19.0	54.4	1.3	91.4	200.1	33.4
Automobile parts and accessories (excl. tires)	25	3.0	11.2	—2.1	20.6	47.9	— 4.3
Building supplies	19	1.0	12.6	4.6	4.7	36.5	5.6
Chemicals and drugs	22	26.9	44.6	24.2	76.3	131.2	62.1
Clothing and textiles	5	— 0.1	0.2	0.2	— 0.2	1.1	— 1.2
Coal and coke	4	0.4	0.8	—0.4	2.5	2.5	— 0.7
Electrical equipment	10	4.6	22.6	7.5	16.5	69.7	26.4
Food and food products	20	26.7	26.1	27.2	75.9	78.0	76.8
Household supplies	9	3.9	4.0	2.8	6.6	7.5	3.9
Machinery and tools	12	0.9	9.6	1.3	4.7	29.5	6.9
Metals and mining (excl. coal and coke)	17	6.8	22.8	10.6	26.7	71.9	33.5
Motion pictures and amusements	4	0.4	2.2	2.3	2.4	7.2	6.5
Office equipment	5	2.4	4.0	2.6	8.6	13.8	9.7
Paper and paper products	6	0.5	1.5	0.8	1.8	5.3	2.7
Petroleum	22	19.1	54.1	27.9	42.4	135.0	81.2
Railroad equipment	9	3.2	9.7	0.3	3.6	28.9	3.9
Steel	14	—20.3	61.7	—7.1	— 8.1	192.1	— 20.7
Tobacco (cigars)	6	1.3	1.2	1.1	3.2	2.5	2.3
Miscellaneous	31	4.0	6.7	6.2	6.9	19.0	13.0
Total, 20 groups	254	105.4	351.4	111.8	391.9	1,086.7	343.9
Class I Railroads, net income	141	—10.7	42.5	3.4	—33.9	81.4	—176.8
Telephone companies, net operating income	91	43.5	52.5	50.5	143.4	171.5	153.4
Other public utilities, net income	60	41.3	56.8	52.2	149.2	188.5	164.8

—Deficit.

record—a deficit of more than $180,000,000—reported a small net profit for the third quarter, amounting for the group as a whole to slightly under 3½ million dollars. In the third quarter of 1937, the net profit of these railroads was approximately 42½ million. Net operating income of 91 large telephone companies and net income of 60 other public utility companies continued somewhat below a year previous, but the declines were not as large as in the first half of the year.

Building

Continuing the rising tendency in evidence since the first of the year, building and engineering contracts awarded in the 37 States surveyed by the F. W. Dodge Corporation were larger in October than in any month since March, 1931. The gain from September to October, in which pronounced gains in nonresidential classifications played a significant part, amounted to 19 per cent on a daily average basis. Compared with October, 1937, total building and engineering awards were 77 per cent higher. All of the major categories except commercial and industrial building registered sizable advances over a year ago, as the following table indicates.

Percentage Change in Average Daily Contracts

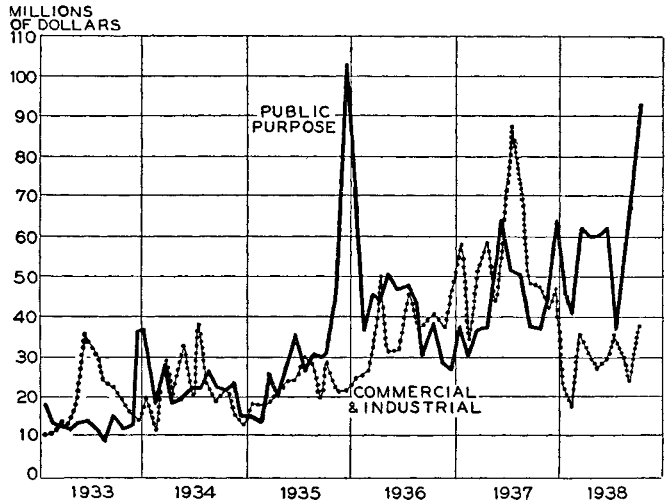
	37 States October, 1938 compared with		N. Y. and Northern N. J. October, 1938 compared with	
	Sept., 1938	October, 1937	Sept., 1938	October, 1937
Building				
Residential	+ 13	+ 72	+ 11	+185
Commercial and industrial	+ 54	0	+ 70	+ 55
Public purpose*	+ 38	+149	+ 52	+171
All building	+ 27	+ 73	+ 27	+152
Engineering				
Public works	+ 12	+ 93	— 22	— 35
Public utilities	— 19	+ 60	— 56	+138
All engineering	+ 4	+ 86	— 31	— 26
All construction	+ 19	+ 77	+ 12	+ 81

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

The accompanying chart shows a separation of nonresidential building contracts into two classes—commercial and industrial buildings, and buildings designed for various public purposes. From 1933 to 1937 the two classes of nonresidential building accounted for roughly similar volumes of construction. However, during the past twelve months public purpose building, supported by contracts placed by the Public Works Administration, has exceeded commercial and industrial building by a substantial margin and has been running at a higher level than in 1937. Commercial and industrial building, which declined sharply when business activity turned downward last year, has experienced little recovery during the current year and remains at a relatively low level.

In the New York and Northern New Jersey area, average daily construction contracts were 12 per cent higher in October than in September. Sizable increases in residential and nonresidential awards were offset in part by a decrease in heavy engineering construction contracts. Compared with October, 1937, total contracts were 81 per cent higher, and the value of residential contracts was nearly three times as great.

The daily rate at which construction contracts were



Monthly Contract Totals for Two Principal Classes of Nonresidential Building Construction (F. W. Dodge Corporation data for 37 States)

awarded in 37 States during the first three weeks of November was 18 per cent below the October average. Declines of somewhat more than the usual seasonal proportions occurred in each of the three major classifications. Compared with the first three weeks of November, 1937, however, total contracts were 34 per cent higher, all three principal categories showing advances.

Production and Trade

Preliminary evidence indicates that there was a further gain in the general level of business activity in November. Steel mill activity, after rising further, eased off slightly during the latter part of the month, but apparently averaged substantially higher than in October. Since June, steel mills have more than doubled their rate of production. Assemblies of automobiles continued to rise during the month, and car manufacturers are reported to have revised production schedules upward, owing to retail sales in excess of earlier expectations. Cotton mill activity apparently increased further in November, though mill sales of cotton goods during the latter part of the month were reported to be lower than current output. For the first three weeks of November electric power generation rose more than seasonally, and department store sales in this District also appear to have increased by more than the usual proportions, while the movement of freight by railway declined less than is usual.

During October business operations continued the recent upward movement, owing in large measure to accelerated rates of activity in important durable goods lines. There were substantial increases in production of steel, pig iron, copper, zinc, cement, and plate glass, and automobile assemblies rose rapidly as volume output of new models was attained. During October shoe production declined less than is usual at this time of the year, but moderate increases in cotton and wool mill operations were largely of a seasonal character, and activity at meat packing plants was little changed.

Among series reflecting the rate of distribution of goods, shipments of freight over the railroads and sales of chain stores other than grocery increased more than is customary during October, and grocery chain store sales advanced as in other years, but department store and mail order sales rose less than usual.

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

	1937	1938		
	Oct.	Aug.	Sept.	Oct.
Industrial Production				
Steel	79	59	63	71
Copper	108	58	65	82p
Passenger cars	135	29	49	81
Motor trucks	62	47	40	42
Bituminous coal	86	70	76	74p
Crude petroleum	97	88	84	86p
Electric power	94	90	89p	89p
Cotton consumption	88	95	90	91
Wool consumption	56r	107	90	92p
Shoes	86	109	101p	101p
Meat packing	86	87	90	90
Tobacco products r	92	91	90	86
Cement	63	52	54	63
Machine tool orders*	143	103	111	108
Employment				
Employment, manufacturing, U. S.	100	80	82	83p
Employee hours, manufacturing, U. S.	88	69	71	74p
Construction				
Residential building contracts	25	43	41	43
Nonresidential building and engineering contracts	46	66	61	80
Primary Distribution				
Car loadings, merchandise and misc.	83r	72	75	77
Car loadings, other	86	66	70	75
Exports	87	84	78	78
Imports	79	79	76	69
Distribution to Consumer				
Department store sales, U. S.	89	81	83	81p
Department store sales, 2nd District	82	76	80	75
Chain grocery sales	94	102	104	107p
Other chain store sales	99r	89	92	95
Mail order house sales	100	89	90	88
New passenger car registrations	120	44	43	69p
Velocity of Deposits				
Velocity of demand deposits, outside New York City**	70	59	61	62
Velocity of demand deposits, New York City**	47	36	38	40
General price level#	158	154	154	155p
Cost of living#	153	148	148	148p
Composite index of wages†	112	109	109	109p

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.

Foreign Trade

Both exports and imports of merchandise continued to increase in value during October and were substantially above the low levels reached in the midsummer months. Exports were valued at $278,000,000, an amount 17 per cent less than in October, 1937, while imports, valued at $178,000,000, were 21 per cent smaller than a year previous. The excess of exports, after declining gradually in several previous months, increased in October, reflecting seasonal influences, but was somewhat less than in October of last year.

Most of the major groups of exports and imports showed seasonal increases over September, but all participated in the decline from a year ago in aggregate values. Compared with October, 1937, decreases in value among the exports ranged from 29 per cent in the case of shipments of crude foodstuffs (notably wheat) to 2 per cent in the case of exports of manufactured foodstuffs. A decline of 31 per cent occurred in imports of semimanufactures, due principally to decreases of almost 60 per cent in the value of receipts of foreign copper and tin. Imports of manufactured foodstuffs were only 7 per cent smaller than the value of a year ago, as increased receipts of sugar and vegetable oils nearly offset decreases in imports of other types of foodstuffs.

	Dollar value (in millions) October, 1938		Percentage change			
			October, 1938 compared with October, 1937		October, 1938 compared with September, 1938	
	Exports*	Imports**	Exports	Imports	Exports	Imports
Crude materials	72.1	53.7	— 18.3	— 25.0	+ 21.0	+ 2.5
Crude foodstuffs	12.5	21.1	— 29.0	— 10.5	— 12.6	+ 2.9
Manufactured foodstuffs	20.8	27.2	— 2.2	— 7.2	+ 21.6	— 4.9
Semimanufactures	44.5	35.8	— 24.3	— 31.1	+ 10.7	+ 6.5
Finished manufactures	124.4	40.6	— 13.3	— 18.6	+ 10.6	+ 7.1
Totals	274.3	178.4	— 16.7	— 21.2	+ 12.6	+ 3.2

* Domestic exports only
** Imports for consumption only

During October relatively large seasonal gains over September occurred in exports of most crude materials, chiefly raw cotton and unmanufactured tobacco. Shipments of passenger automobiles were valued at nearly $5,000,000 more than the low figure of the previous month, but were still about one third below a year ago. Exports of other manufactured products, electrical machinery and apparatus, printing and bookbinding machinery, office appliances, iron and steel and tobacco manufactures, likewise showed substantial increases over the previous month. Only shipments of crude foodstuffs were smaller than in September. The largest gain in imports, compared with the previous month, occurred in receipts of wholly and partly finished manufactures, especially newsprint paper, tin, and nickel.

For the first ten months of 1938, exports aggregated $2,573,000,000 and imports $1,613,000,000. The $960,000,000 excess of exports was the largest for the comparable period of any year since 1921.

Employment and Payrolls

Following substantial increases in August and September, there was a net rise of nearly 150,000 persons in nonagricultural employment during October, according to the statistics of the Department of Labor. Nonmanufacturing fields, including mining, retail trade, and building, accounted for a considerable part of the rise in employment in October.

Factory employment increased 1 per cent further and payrolls were about 3½ per cent higher—somewhat more than the usual October gains in both cases. Employment gains were most pronounced in the durable goods industries, particularly at automobile plants where working forces were increased by 85,000 persons coincident with the attainment of large scale production on new models. Reflecting in part the closing of the active canning and preserving season, employment in the nondurable goods industries declined. Compared with a year ago, total factory employment was 16½ per cent lower and payrolls were 20 per cent less.

New York State factory employment and payrolls showed little net change from September to October following three consecutive monthly gains. Working forces at metal and machinery plants increased further, the advance being especially pronounced at factories connected with the manufacture of automobiles and airplanes, and employment in the production of many building materials was likewise expanded. Seasonal reductions in working forces, however, occurred in canning and preserving plants, which had operated at high rates in September, and also in the clothing and millinery industries, due to seasonal curtailment of activity. Compared with a year ago, employment was 10 per cent lower and payrolls were 11 per cent less.

Commodity Prices

The general average of prices of actively traded commodities continued to move within narrow limits during the first half of November, but subsequently tendencies to decline became apparent, in several cases as the result of special developments affecting certain commodities. Moody's Investors Service index of 15 raw products closed the month about 2 per cent below the end of October, reaching toward the end of the month the lowest level since the end of June. This index, however, remained 8 per cent above the 4½ year low reached at the beginning of June.

The spot quotation for crude rubber, which rose to 17¼ cents a pound in the early part of November, subsequently declined to close the month at 15⅞ cents, showing a net loss of ⅞ cent from the end of October. This decline reflected the decision of the International Rubber Regulation Committee to raise the rubber export quota for the first quarter of 1939 to 50 per cent of basic quotas, as compared with the current rate of 45 per cent. Accompanying a declining tendency in the Japanese market, the price of raw silk in New York receded 8 cents during November to $1.75½ a pound. The price of zinc was lowered 30 points to 4.75 cents a pound on November 21, following the announcement of the reduction in the duty on slab zinc (effective January 1) provided for in the Canadian trade agreement, and subsequently was reduced an additional 25 points to 4.50 cents. Quotations for both export copper and scrap copper also declined somewhat in the second half of the month. Although some temporary support was provided by the restoration of limitations on foreign copper production by the international copper cartel, these prices at the end of November were well below the domestic spot price of copper, which held steady at 11¼ cents a pound throughout November. The price of tin declined 15 points to 45.85 cents a pound during November, and lead receded 10 points to 5 cents a pound. Scrap steel prices, on the other hand, increased during the past month, and the quotation at Pittsburgh rose $1.00 to $15.75 a ton, thereby more than canceling the decline that occurred in the two previous months.

With respect to the important farm products, the most pronounced movement occurred in corn prices; the cash quotation at Chicago, which had declined 6 cents in October, rose 6¼ cents during November to 48½ cents a bushel. The greater part of this increase occurred in the first part of the month and was associated mainly with the announcement of the Government corn loan rates for this year's crop, which were placed at 57 cents a bushel for all farmers in the "commercial corn area" who did not exceed their 1938 corn acreage allotments. Wheat prices, however, showed small net declines for the month, despite the provision included in the trade agreements terminating the 6 cents preference granted Dominion wheat imports into the United Kingdom. Cotton prices closed November near the level prevailing a month earlier. Liquidation of December future contracts apparently had some restraining influence on the prices of both wheat and cotton in the latter part of the month.

Department Store Trade

Department store sales in this District appear to have increased somewhat more than seasonally during the first three weeks of November, but were 7 per cent lower than in the corresponding 1937 period.

Total October sales of the reporting department stores in this District were about 10 per cent lower than last year, and apparel store sales were approximately 11 per cent less, both larger declines than in September. Sales of reporting department stores in all localities were lower than last year, but in the case of stores in Bridgeport and the Hudson River Valley district the decreases from a year ago were less than in September.

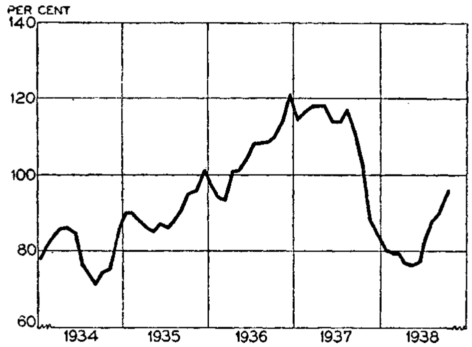
Stocks of merchandise on hand in the department stores, at retail valuation, were 11 per cent lower at the end of October, 1938 than at the end of October, 1937, and apparel store stocks were about 13½ per cent lower. Collections of accounts outstanding continued slower this year than last in the department stores, but were somewhat better in the apparel stores.

Locality	Percentage change October, 1938 compared with October, 1937		Per cent of accounts outstanding September 30 collected in October	
	Net sales	Stock on hand end of month	1937	1938
New York and Brooklyn	—10.3	—10.3	49.7	48.3
Buffalo	—10.7	—12.9	45.6	43.1
Rochester	— 8.3	—17.7	61.9	58.4
Syracuse	—12.8	—10.6	46.1	44.0
Northern New Jersey	—10.7	—12.3	45.1	43.0
Bridgeport	— 7.7	—11.9	43.9	43.8
Elsewhere	—10.7	— 6.3	36.3	35.7
Northern New York State	—17.0	......	....	....
Southern New York State	—10.6	......	....	....
Central New York State	—13.7	......	....	....
Hudson River Valley District	— 3.7	......	....	....
Westchester and Stamford	—18.4	......	....	....
Niagara Falls	—14.5	......	....	....
All department stores	—10.3	—11.0	48.2	46.5
Apparel stores	—10.9	—13.4	47.0	48.0

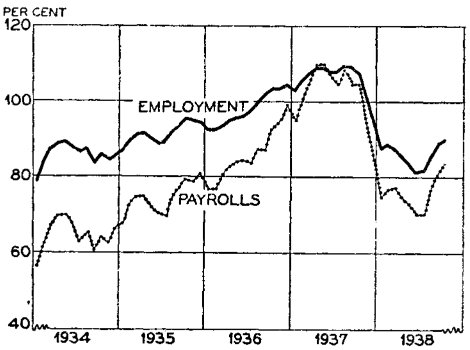
Department Store Sales and Stocks, Second Federal Reserve District
(1923-25 average = 100)

	1937	1938		
	Oct.	Aug.	Sept.	Oct.
Sales, unadjusted	109	64	94	98
Sales, seasonally adjusted	95	86	90	85
Stocks, unadjusted	98r	75	82	89
Stocks, seasonally adjusted	86r	79	78	78

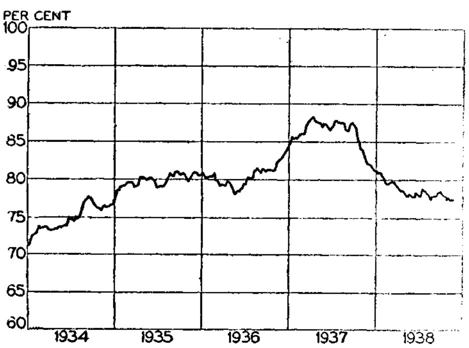
FEDERAL RESERVE BANK OF NEW YORK
MONTHLY REVIEW, DECEMBER 1, 1938



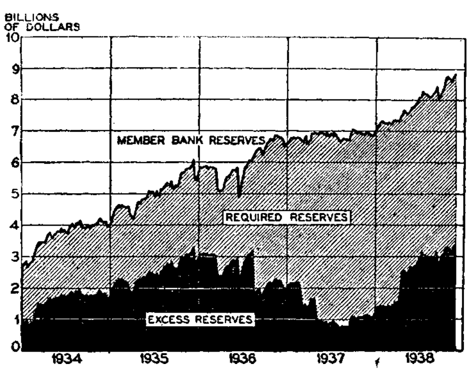
Index Number of Production of Manufactures and Minerals Combined, Adjusted for Seasonal Variation (1923-25 average=100 per cent)



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



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



Wednesday Figures of Total Member Bank Reserve Balances at Federal Reserve Banks, with Estimates of Required and Excess Reserves

Business Conditions in the United States

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

INDUSTRIAL production continued to increase sharply in October and the first three weeks of November, reflecting principally larger output of steel and automobiles. Wholesale commodity prices showed little change in this period. Volume of employment and national income increased in October.

Production

In October the Board's seasonally adjusted index of industrial production was at 96 per cent of the 1923-1925 average, as compared with 90 per cent in September. Steel ingot production increased considerably, averaging 53 per cent of capacity in October, and in the first three weeks of November there was a further substantial advance. In the automobile industry output was increased rapidly during October and the first three weeks of November both to stock dealers with new model cars and to meet the increased volume of retail demand accompanying the introduction of new models. Production, which in the first nine months of 1938 had been at a considerably lower level, was at nearly the same rate as in the corresponding period in other recent years. Output of plate glass also increased sharply further in October. Cement production showed a considerable increase, while lumber production declined slightly.

Activity at textile mills, which had risen sharply during the summer, continued at about the August and September rate, although usually there is an increase at this time of the year. Shoe production declined somewhat further in October, and there was a decrease in output of tobacco products, while in most other industries manufacturing nondurable goods changes in output were largely seasonal in character. Mineral production showed a further moderate rise, reflecting in large part increased output of crude petroleum and nonferrous metals. Lake shipments of iron ore also were in larger volume, although a decrease is usual in October. Coal production increased seasonally.

Value of construction contracts awarded in 37 Eastern States increased considerably in October, according to figures of the F. W. Dodge Corporation, reflecting chiefly a sharp rise in awards for public projects. Contracts for hospital, educational, and other public buildings included in the Public Works Administration program were in large volume, and there was a further increase in contracts awarded for slum clearance projects of the United States Housing Authority.

Employment

Employment and payrolls increased somewhat further between the middle of September and the middle of October. At automobile factories employment continued to rise sharply and there were further moderate increases in most other durable goods industries. The number employed at canning establishments declined and in other nondurable goods industries showed little change. Employment increased somewhat at mines, on the railroads, and in the construction industry, while in trade the rise was less than seasonal.

Distribution

Sales at department and variety stores and by mail order houses showed less than the usual seasonal increase in October, partly because consumer buying of winter merchandise was retarded by unseasonably warm weather during most of the month. In the first two weeks of November department store sales increased moderately.

Freight car loadings rose considerably further in October, owing largely to increased shipments of grains, coal, and miscellaneous freight. In the first half of November loadings showed a seasonal decline.

Commodity Prices

Wholesale commodity prices generally showed little change from the middle of October to the third week of November. Prices of steel scrap and leather advanced. Tin plate prices, on the other hand, were reduced, and there were also decreases in zinc, hides, and rubber. Prices of farm products and foods showed small fluctuations in this period.

Bank Credit

Total loans and investments at reporting member banks in 101 leading cities declined by about $150,000,000 during the first half of November following a substantial increase during October. The decline in November was almost entirely at New York City banks and reflected the retirement of State and local government obligations held by these banks. Adjusted demand deposits, which reached an all-time peak of $16,000,000,000 at reporting banks in the last week in October, also decreased somewhat in the first half of November. Member bank reserves in the middle of November were at about the high level reached a month earlier.

Money Rates and Bond Yields

The prevailing rate on open market commercial paper declined slightly in November to 5/8 of 1 per cent, a new low level. Other short term open market rates were unchanged. Yields on U. S. Government securities and on high grade corporate bonds showed only small changes during November, continuing close to the low levels reached in October.