MONTHLY REVIEW
of Credit and Business Conditions
Second Federal Reserve District

Federal Reserve Bank, New York *January 1, 1939*

Money Market in December

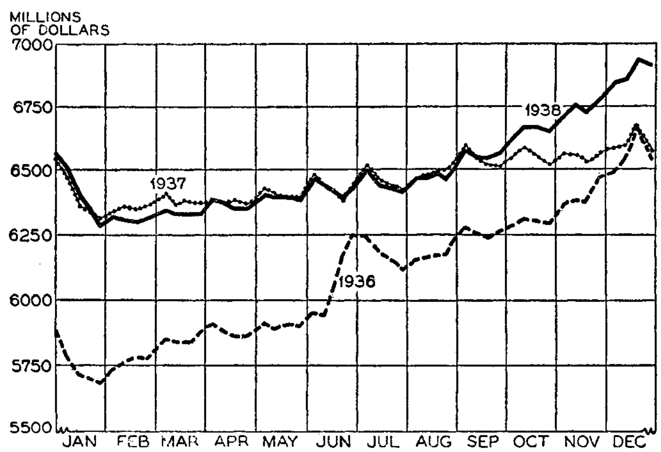
An extraordinary development in the money market, during the past month, was the sale on December 23 of $100,000,000 of three month Treasury bills at no interest cost to the Government, at a time when excess reserves of all member banks had just been reduced $500,000,000 by Treasury tax period operations and Christmas currency demands.

There are special factors in the demand for Treasury bills at this time which were the immediate cause of this situation, but the underlying factor is the persistent strong demand for prime short term obligations arising out of the huge volume of idle funds held by banks and other institutions. As recent developments have indicated, the present reserve position of the banks is such that large fluctuations in the amount of excess reserves can occur with no visible effect on money market conditions. Even after the $500,000,000 reduction in excess reserves referred to above, the amount remaining in all member banks was still close to $3,000,000,000, about one half of which was in New York City banks and the remainder scattered throughout the country. Earlier in the month the total of excess reserves had risen close to $3,500,000,000, a new high.

The temporary reduction in aggregate excess reserves of member banks, which took place during the third week of December, reflected the combined effect of fourth quarter income tax collections, cash payments for the new Government securities issued on December 15, and currency withdrawals from the banks for use in connection with the holiday trade. These influences were partly offset by interest payments on the Government debt and general Government disbursements, a continued rise in the gold stock, and other minor factors. All of the factors that produced the reduction in excess reserves are temporary in their effects, and a rapid reversal in the movement of excess reserves is to be expected during coming weeks.

The amount of currency outstanding, for example, declines rapidly after Christmas, and the resulting return flow of currency to the Reserve Banks will probably contribute 350 to 400 million dollars to the volume of member bank reserves by the end of January. The accompanying diagram compares movements in the volume of currency outstanding in 1938, 1937, and 1936. As this diagram indicates, there was a considerably greater demand for currency during the autumn and the period of holiday trade this year than in 1937, when a rapid decline in business activity was under way; the demand this year was more closely parallel to that of 1936, when business was expanding rapidly. For a few weeks early in the autumn, the increase in currency outstanding was actually greater this year than in 1936, reflecting an unusual foreign demand for United States currency that developed in connection with the European war scare in August and September, in addition to the demands incident to increasing business activity. The actual amount of currency outstanding this year has been considerably greater than in 1936, notwithstanding a lower level of business activity, reflecting the upward trend in the use of currency which has now persisted for several years.

In Treasury transactions also, a reversal of the tax period effect on member bank reserves is to be expected in coming weeks. The excess of Government expenditures over current receipts will undoubtedly result in rapid disbursement of funds that were transferred from member banks to Treasury deposits in Federal Reserve Banks during the third week of December, and in a consequent expansion of bank reserves. Gold imports and the domestic production of gold may also be expected to contribute further additions to member bank reserves. Altogether, the present prospect is that the amount of member bank reserve balances may show an increase in the neighborhood of $900,000,000 during the five weeks



Volume of United States Money in Circulation During 1938, Compared with 1937 and 1936

ending January 25, and that excess reserves will rise to higher levels than ever before.

Money Rates

Even aside from the unusual situation in the Treasury bill market, previously commented upon, an extremely easy situation persisted in the New York money market during December. This condition was reflected in a decline in the average yield on 3 to 5 year Treasury notes to new low levels, after adjustment is made for the effect of the new issues on December 15. Yields during December on long term Treasury bonds also were at approximately the lowest levels ever attained during the period of large Federal indebtedness since the World War, and yields on the best grade industrial and public utility bonds reached new levels.

Money Rates in New York

	Dec. 31, 1937	Nov. 30, 1938	Dec. 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	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)	1.23	0.67	†0.65
Average yield on Treasury bonds (more than 12 years to maturity or call date)	x2.68	x2.51	x‡2.48
Average rate on latest Treasury bill sale 91 day issue	0.10	0.02	▲0
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

† Change of +0.10 from previous yields through dropping 1¼ per cent Treasury notes maturing December 15, 1941, or within three years, and including the new 1⅛ per cent Treasury notes maturing December 15, 1943.

‡ Change of +0.02 in average yield on six Treasury bonds due or callable after 12 years resulting from inclusion of the new 2¾ per cent Treasury bonds of 1960-65.

x Substituted for series due or callable after 8 years previously used.

▲ Issue sold at par.

Member Bank Credit

Total loans and investments of weekly reporting member banks in 101 principal cities increased $436,000,000 in the four weeks ended December 21, and on that date were the largest since October, 1937. The principal factors in the increase were a rise of approximately $200,000,000 in Government security holdings, reflecting purchases of the new Treasury issues on December 15, and an increase of nearly $150,000,000 in loans to security brokers and dealers, an important factor in which was the financing of dealers' operations in Government securities. There were small increases also in holdings of Government guaranteed securities, and in other securities such as State and municipal issues, but commercial, industrial, and agricultural loans as a group showed a further small reduction, apparently seasonal in character. Practically all of the increase in Government security holdings occurred at reporting member banks in cities other than New York, while a large part of the increase in loans to security brokers and dealers, and in holdings of Government guaranteed and other securities, occurred in New York City.

Deposits in the reporting member banks rose to new high levels in the first half of December, but declined in the third week of the month, reflecting income tax payments by depositors and seasonal currency withdrawals. Deposits held by the large New York City banks for correspondent banks declined nearly $200,000,000 in the week ended December 21.

Government Securities

Following the Treasury's offering of new securities announced on December 5, $403,000,000 of 2¾ per cent Treasury bonds of 1960-65 and $329,000,000 of 1⅛ per cent Treasury notes maturing in 1943 were issued on December 15 against cash subscriptions. In addition, $188,000,000 of the 2¾ per cent bonds and $39,000,000 of the notes, together with $702,000,000 of 2 per cent Treasury bonds of 1947, were issued in exchange for Treasury notes maturing March 15, 1939. These exchanges totaled $929,000,000, indicating that all except $13,000,000 of the notes due in March, 1939, which had been outstanding in the amount of $942,000,000, were tendered for exchange.

The Government security market, in which prices had shown some tendency to decline during November, partly as a result of a disposition on the part of a number of holders of Government securities to await the announcement of the terms of the December 15 financing operations, turned active and strong in December. Intermediate and long term Treasury bonds participated in the rise, as well as Treasury notes, yields on which receded to new low levels. In the case of long term Treasury bonds (not due or callable before 12 years) the rise in prices reduced the average yield to a level close to the record low reached in February, 1937. Toward the close of the month, the new 2¾ per cent bonds of 1960-65 were quoted at 102⅝, and, indicative of the strong situation in intermediate Treasury bonds, the new 2 per cent bonds of 1947 were quoted at 102 3/16. The new Treasury notes of 1943 were quoted at 101 14-16/32.

Likewise, the prices bid for the Treasury bill issues floated by the Treasury during December advanced in successive weeks, and for most of the issue dated December 28 the bids accepted were at par, resulting in no yield on a Treasury bill issue for the first time since the inception of this type of financing in this country. Unusual demands for the new bills, including their use to avoid taxes on bank deposits in several States, for year-end bank statement purposes, and for investment of corporation funds, caused the volume of bids for the weekly issues to rise considerably in recent weeks, and for the December 28 issue of $100,000,000 they amounted to $507,000,000, with one exception the largest volume of bids ever received for a Treasury bill issue. The $100,000,000 of new bills issued each week in December replaced similar weekly maturities.

Commercial Paper and Bills

The ruling rate in the open market for average grade prime 4 to 6 month commercial paper continued to be

⅝ per cent during December. Exceptionally choice paper continued to be sold at ⅛ per cent below the ruling rate, and good but less widely known names moved at ¾ per cent. Trading in commercial paper again was rather inactive, owing to the inability of dealers to secure larger quantities of new paper. In view of the approaching inventory taking and year-end statement period, borrowers, as usual, showed no disposition to increase their indebtedness at this time. In November the amount of paper outstanding through reporting commercial paper houses showed a seasonal decline of $7,000,000 to $206,000,000, as compared with $311,000,000 a year previous.

In the bill market no change occurred during December in the extremely quiet conditions that have existed for some time. Offerings remained very light and demand active; rates were unchanged. Owing to small increases in several classes of bills, the largest of which was a $2,000,000 rise in export bills, the total volume of bills outstanding rose $3,000,000 during November to $273,000,000. Since August, when the outstanding volume reached its record low, to the end of November, there was a seasonal rise of $15,000,000.

(Millions of dollars)

Type of acceptance	Nov. 30, 1937	Oct. 31, 1938	Nov. 30, 1938
Import	122	94	95
Export	84	57	59
Domestic shipment	9	10	10
Domestic warehouse credit	71	50	49
Dollar exchange	1	3	3
Based on goods stored in or shipped between foreign countries	61	56	57
Total	348	270	273

Security Markets

Stock prices in general fluctuated irregularly within a narrow range during December, but closed the month at slightly higher levels than at the end of November. The turnover of stocks was generally rather light, averaging only about 1,200,000 shares per day. The rising price movement and greater activity of aircraft issues were exceptions to the relative steadiness and inactivity of the stock market in general. In the period from shortly after Election Day to the latter part of December, aircraft issues showed a net price advance of about 9 per cent, while the general average of stock prices, owing to the receding tendency which developed between November 14 and November 28, closed December approximately 5 per cent below the November 9 high.

Second grade corporation bonds which had declined in the second half of November along with stock prices continued to ease in the first 12 days of December; thereafter there was some recovery, but all classes of bonds of this grade closed the month slightly below their November highs. High grade corporation bonds were firm throughout December; Aaa industrial and public utility bond averages reached new high levels.

New Financing

Corporate security flotations in December totaled about $250,000,000, or more than $100,000,000 in excess of the revised total for November, but below the total for October. The increase in total issues over the November figure was due entirely to a rise in the amount of financing for refunding purposes. The month's corporate issues for new capital purposes aggregated about $45,000,000, which was about the same as in the two preceding months. Most of the offerings during the month were quickly sold, although two large issues apparently were not completely distributed. Issues in excess of $10,000,000 were as follows:

$38,000,000	Central Illinois Public Service Company first mortgage 3¾'s of 1968, at 100½, and
10,000,000	debenture 3½'s and 4's of 1939-48 to yield 1.50-4.00 per cent
35,000,000	Cities Service Gas Company first mortgage 3¼'s and 3¾'s of 1940-54, placed privately
30,000,000	Chesapeake and Ohio Railway Company refunding and improvement mortgage 3½'s of 1963 at 101½
25,000,000	Commonwealth Edison Company convertible debenture 3½'s of 1958, offered to stockholders at par
21,071,600	Continental Oil Company convertible debenture 2¾'s of 1948, offered to stockholders at par
16,000,000	Railway Express Agency serial ⅜-2½ per cent notes of 1939-48 at 100
10,168,000	Consumers Power Company first mortgage 3¼'s of 1966 at 104½

Municipal bond awards during the month amounted to about $130,000,000. The only flotations in excess of $5,000,000 were a new issue of $15,250,000 City of Los Angeles Department of Water and Power bonds of 1939-1978 which were reoffered to yield from 0.50 to 3.70 per cent, and a refunding issue of $13,556,000 Metropolitan Water District of Southern California bonds of 1946-1986, acquired by the offering syndicate from the Reconstruction Finance Corporation and offered at prices to yield from 2.50 to 3.55 per cent, depending upon maturity. The Federal National Mortgage Association made its second public offering of securities—$50,000,000 of 1⅝ per cent 5 year notes, which was heavily oversubscribed. An offering of 5 year notes in May bore 2 per cent interest.

At the end of December there were no large corporate issues in process of registration with the Securities and Exchange Commission.

Foreign Exchanges

During the month of December, outstanding developments in the foreign exchange market were the continued large repatriation of capital to France, a halt to the decline of the pound sterling, a brief period of weakness in the belga, and the imposition of exchange and trade restrictions in New Zealand.

The repatriation of French capital, which had begun after the announcement of the Government Decrees in mid-November, and which reached a peak on November 30 when the general strike called by the General Confederation of Labor failed, continued into December in considerable volume and resulted in the acquisition by the French exchange authorities of substantial amounts of gold and foreign exchange. Italian agitation for French possessions interrupted the return flow of capital to Paris only slightly. The success in the Chamber of Deputies of the Daladier foreign policy and of the Reynaud 1939 budget were favorably interpreted by the foreign exchange market and added impetus to the repatriation movement. It was estimated by Finance Minister Reynaud on December 8 that the gain of gold and foreign exchange by the French Stabilization Fund from November 1 to that date had been the equivalent of 6,000,000,000 francs. Further gains during the rest of the month raised the total far above this figure. In New York the franc advanced from $0.0262 13/16 to $0.0263½, and the London cross rate showed a gain from 178 5/16 francs per pound on November 30 to 176 13/16, or the best quotation since May 4.

The pound sterling moved within a range between $4.70 on December 5 and $4.65¼ on December 30, compared with $4.68¾ on November 30. This leveling off, which followed the sharp decline of more than 13 cents between November 7 and November 26, was due in large part to short covering which in turn was influenced by greater than seasonal tightness in the London money market. Difficulties experienced by bear speculators in extending their short commitments in the forward market were indicated by weakness in forward quotations for the pound, which recovered on December 29, however, after year-end positions had been adjusted. The discount on sterling for three months' delivery reached the equivalent of more than 2⅜ per cent per annum, compared with 1⅜ per cent on November 30, while discounts for one month sterling reached the equivalent of 3½ per cent per annum, compared with 1⅜ per cent on November 30. The increased cost of renewing the large short position in the forward market resulted in a substantial liquidation of short positions in sterling. The continued strong commercial demand for dollars and the intervention of British exchange authorities kept rate movements within a narrow range, despite the seasonal movement of funds to London for the year end.

The belga was subjected to a speculative attack during December because of political difficulties experienced by the Spaak Government over the unemployment relief features of the 1939 budget and the Belgian Government's recognition of the Spanish Nationalist Government. The belga declined from $0.1690 on November 30 to a level below $0.1684, the point at which gold shipments to New York become profitable, on December 2, but recovered to $0.1687½ on December 12, and remained above the gold point for the rest of the month. The resignation of Finance Minister Gerard and the addition of two new ministers to his cabinet enabled Premier Spaak to gain a vote of confidence.

The convertibility of the New Zealand pound into the pound sterling was suspended by the Reserve Bank of New Zealand on December 6 at the same time that a system of export and import licenses was instituted for New Zealand foreign trade. A high level of merchandise imports and a flight of capital, which had depleted the sterling reserves of the Reserve Bank and of the trading banks, were indicated as the proximate causes of the restriction.

Markets for other currencies recorded no significant developments, with the exception of a slight weakness in Canadian exchange during the month, attributed in the exchange market to year-end dividend disbursements by Canadian companies to American stockholders. From a discount of 21/32 per cent on November 30 the Canadian dollar weakened to a discount of 1 1/16 per cent on December 14, and again on December 27, closing the month at a discount of 1 per cent.

Gold Movement

During December, currently reported gold imports affecting the United States gold stock included receipts at New York totaling $90,600,000, of which $66,900,000 came from England, $21,600,000 from Holland, and $2,100,000 from India. On the West Coast receipts totaled $21,300,000, of which $14,600,000 came from Japan, $4,800,000 from Australia, and $1,900,000 from China.

In addition, there was a gain to the gold stock through the release of $12,600,000 from earmarked gold held for foreign account in this country. As a result of these reported transactions and other unreported acquisitions by the Treasury, the United States gold stock was increased during December by approximately $200,000,000, which compares with a gain of $247,000,000 in November, $305,000,000 in October, and $624,000,000 in September.

For the year 1938, the gold stock of the United States rose approximately $1,750,000,000, as compared with a gain of $1,502,000,000 in 1937.

Central Bank Rate Changes

On November 19 the Reserve Bank of New Zealand announced an increase in its discount rate from 2 per cent to 4 per cent. It is understood that the change was made effective November 22. The previous rate had been in force since June 29, 1936.

Production and Trade in 1938

For the first year since 1932, the volume of production and trade in the year 1938 aggregated less than in the previous year. During the first five months of the past year production and trade volumes were reduced, in continuation of the sharp downward movement which occurred in the last four months of 1937, and the sizable recovery in the subsequent part of 1938 failed by a substantial margin to raise the total for the year to the 1937 total.

According to a preliminary estimate, the volume of production and trade in 1938 totaled about 15 per cent less than in 1937. This preliminary estimate is based upon data for the production of manufactures and minerals, agricultural production, building construction, and railroad car loadings of merchandise and miscellaneous freight. In all cases actual figures for at least the first 11 months of 1938 were used, with estimates for the remaining portion of the year. In the past, the preliminary figures for these series have been found to give a reasonably close approximation of the movement of this bank's broader annual index of production

Index of General Production and Trade in the United States (1923-25 average = 100 per cent)

and trade which is based upon data for more than 200 business series. This series, with the 1938 preliminary figure added, is shown in the accompanying diagram for the period since 1919. It would appear from this diagram that the decline in 1938 reduced the total volume of production and trade to an average level which was about the same as in 1935, and somewhere near the mid-point between the 1929 peak and the 1932 low point.

Unlike activity in other principal lines, the volume of construction for which contracts were awarded in 1938 showed an increase of about 7 per cent for the year, reflecting largely increases in public works construction but also some rise in residential building. The 1938 volume of construction was more than double the 1933 low level but remained not greatly over one half of the 1928 peak amount. The volume of agricultural production in 1938 declined only about 3½ per cent from the output of the peak year 1937, and was 14 per cent higher than in 1935 when agricultural production reached its low for recent years. The largest decline in production volumes in 1938 occurred in the output of manufactured goods. The 1938 aggregate output of manufactures, while dropping below the 1935 figure, remained substantially larger than in 1932. Production of minerals and metals was curtailed 14 per cent in 1938 from the 1937 level which had equaled the 1929 volume. In comparison with the 1932-1933 lows, mineral and metal production, next to building construction, showed the largest percentage of net recovery. Indicative of the primary distribution of goods in 1938, railroad car loadings of merchandise and miscellaneous freight were reduced 17 per cent from the 1937 volume.

Commodity Prices

Prices of the principal wholesale commodities generally continued to show only minor changes during December. Some decline in the average level in the first part of the month was followed by a firmer tendency in the latter part of the month, and Moody's Investors Service index of 15 raw products ended December slightly above the level prevailing at the end of November.

Wheat prices, which had held relatively steady in November, were stimulated to some extent by the announcement early in December of the purchase by British millers of 20,000,000 bushels of wheat held by the Federal Surplus Commodities Corporation. Unfavorable growing conditions in the domestic winter wheat belt, together with reports of severe weather over the European winter wheat areas, provided further strength to wheat prices during the month. As a result, the spot quotation for the Number 2 grade of red winter wheat rose 6⅞ cents during December to 84½ cents a bushel. The Government winter wheat estimate, released toward the end of the month, placed next season's crop at 485,000,000 bushels, a figure about 200,000,000 bushels less than last season's winter wheat harvest. Cash corn at Chicago rose 4½ cents during the past month to 53 cents a bushel. This advance, which occurred chiefly in the second week of December, reflected to a large extent indications of increased export demand, together with the accumulation in the Government loan stock of large quantities withdrawn from the market. The price of crude rubber advanced ¼ cent to 16⅜ cents a pound, and gains for the month also occurred in the prices of steers and raw silk.

The spot quotation for raw sugar declined rather substantially on December 6, following the announcement of the sugar marketing quota for 1939, which was considered by the trade as in excess of probable needs of the domestic sugar market. Although some slight recovery was shown subsequently, raw sugar ended December at 2.88 cents a pound, as compared with 3 cents a month earlier. Sizable decreases occurred in wool prices during the past month, and there were moderate net declines in cotton prices. The price of hides at Chicago declined 1½ cents further to 11½ cents a pound during the first two weeks of December, but there was an advance later in the month to 12½ cents, only ½ cent below the price at the end of November.

With respect to the principal metal prices, lead showed a further decline of 15 points during the month, closing at 4.85 cents a pound. Although domestic copper futures and the export price for copper rose immediately after the announcement on December 7 of new restrictions on foreign copper production by the foreign copper cartel, the spot quotation for domestic copper continued at 11¼ cents a pound throughout the month. Prices of zinc and tin also held steady. A decline of 50 cents brought scrap steel at Chicago to $13.75 a ton, while the quotation at Pittsburgh continued at $15.75 a ton.

Building

Evidence of the usual seasonal slackening in the rate of building and engineering contract awards appears in the figures for November compiled by the F. W. Dodge Corporation. On a daily average basis, contracts awarded in 37 States declined 8 per cent from the average for October when construction awards were at the highest level since March, 1931. Compared with November, 1937, however, total contracts were 52 per cent higher and all of the major categories, with the exception of commercial and industrial building, showed substantial increases.

For the first eleven months of 1938 total construction contracts were slightly ahead of the corresponding period of 1937 as the following table indicates.

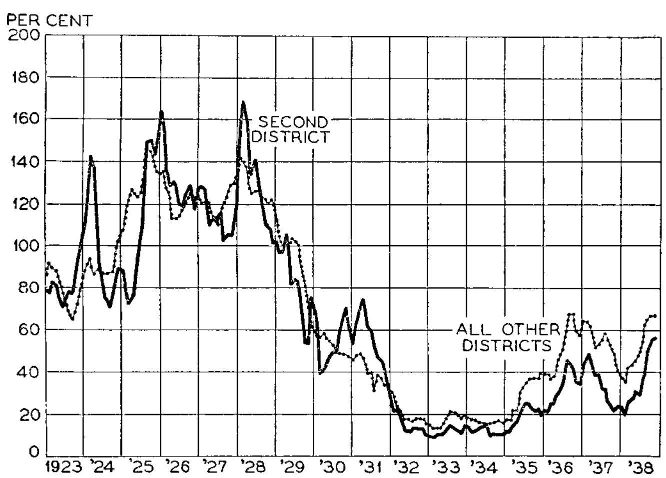
Percentage Change in Average Daily Contracts

	37 States		N.Y. and Northern N.J.	
	Nov., 1938 compared with Oct., 1938	Jan.-Nov., 1938 compared with Jan.-Nov., 1937	Nov., 1938 compared with Oct., 1938	Jan.-Nov., 1938 compared with Jan.-Nov., 1937
Building				
Residential	— 8	+ 4	—39	+19
Commercial and industrial	—31	—45	—61	—18
Public purpose*	+ 7	+28	—39	+10
All building	— 6	— 5	—42	+ 8
Engineering				
Public works	—17	+36	—40	+ 5
Public utilities	+ 1	0	—56	+40
All engineering	—14	+25	—43	+19
All construction	— 8	+ 4	—42	+12

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

In the New York and Northern New Jersey area the decline in total contracts from October to November was considerably more pronounced than in the 37 States, and on a daily average basis amounted to 42 per cent. All of the major construction classifications registered sizable reductions in November. Compared with November, 1937, however, total contracts were 22 per cent higher. Building and engineering contracts awarded during the first eleven months of 1938 exceeded total contracts in the same period of 1937 by 12 per cent.

The accompanying diagram shows a comparison between the estimated physical volume of residential building in the Second Federal Reserve District and in all other districts from 1923 to date. The volume of residential building was greatly reduced from the peak period of the 1920's to an extremely low level which extended through the years 1932-34. During the 1935-36 recovery there was less improvement in residential building in this District than elsewhere. This divergence, in the main, continued in the subsequent 1937 recession, but during 1938 the recovery in residential building was more pronounced in this District than in other sections of the country taken as a whole. By November, residential building in this District was about 15 per cent above the 1937 high point, while in all other districts residential building approximately recovered the loss sustained in its decline in 1937.



Estimated Volume of Residential Building in Second Federal Reserve District and in All Other Districts from which Reports are Collected by F. W. Dodge Corporation, Adjusted for Seasonal Variation and Price Changes (1923-25 average = 100 per cent; data are three month moving averages)

The daily rate at which construction contracts were awarded in 37 States during the first three weeks of December was about the same as the November average. Owing to the approach of the December 31 dead line for the placing of Public Works Administration contracts, heavy engineering awards showed a large contraseasonal advance, which approximately offset seasonal declines in residential and nonresidential building contracts. Compared with the first three weeks of December, 1937, total contracts were 56 per cent higher; heavy engineering work registered an advance of 106 per cent; residential building was 84 per cent higher, and nonresidential building increased 8 per cent.

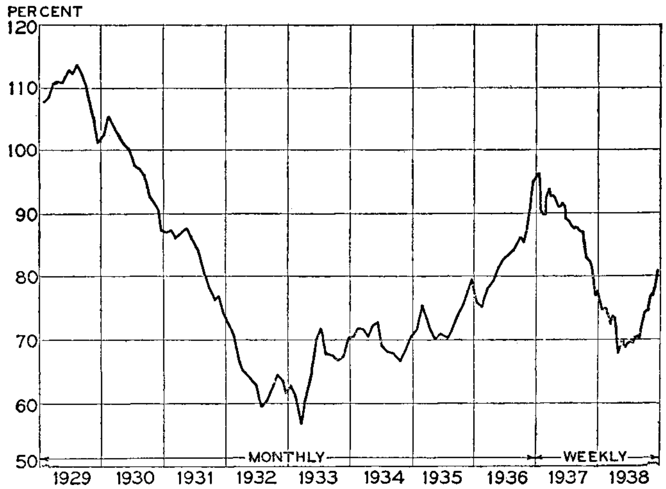
Production and Trade—November and December

Seasonal influences played their usual large part in determining the course of business volumes in December. After making allowance for these influences, it appears that the change in the general level of production and trade during December was smaller than in preceding months.

Steel production, which toward the end of November had developed a declining tendency, was reduced sharply in the latter part of December by shutdowns for holidays and inventory taking, and it is estimated that a somewhat greater than seasonal decline occurred for the month as a whole. In the first three weeks of the month daily average bituminous coal output was also smaller than in November, but textile mill operations appear to have been maintained better than usual, and automobile assemblies exceeded the November rate. Electric power production, which reaches its seasonal peak in December, rose more than usual in the first three weeks of the month, and in the same period railway freight traffic declined less than in most other years, with the result that the seasonally adjusted index of car loadings of merchandise and miscellaneous freight, shown in the accompanying diagram, continued the recovery which was in progress throughout the second half of 1938.

Retail trade, which like electric power production reaches its highest level of the year in December, gained sharply over November, and early indications for this District were that the advance in department store sales was larger than usual.

During November there was a further substantial gain in business volumes, especially pronounced, as in October, in the durable goods industries. The daily rate of steel output increased 18 per cent over October and reached the highest point since September, 1937. Production of other metals, including pig iron, copper, lead, and zinc, also advanced considerably, and bituminous coal mining gained over the level of October. Production of 1939 automobile models reached the relatively high level of approximately 85,000 units weekly, and total assemblies were the largest in any month since August, 1937. Textile mills, particularly woolen mills, also increased their operations, while shoe production declined less



Railroad Car Loadings of Merchandise and Miscellaneous Freight, Adjusted for Seasonal Variation (Trend of past years = 100 per cent; weekly figures are four week moving averages)

than in most other years. Generation of electric power rose more than usual.

The volume of retail trade, on the whole, also expanded in November. Department store sales advanced more than usual, and grocery chain store sales were higher, while mail order house sales showed some seasonal decline, and sales of chain stores other than grocery failed to advance as much as in most recent years. Railway freight traffic declined less than in most other years.

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

	1937	1938		
	Nov.	Sept.	Oct.	Nov.
Industrial Production				
Steel	52	63	71	85
Copper	92	65	82	92*p*
Passenger cars	79	49	81	84
Motor trucks	106	40	42	82
Bituminous coal	81	76	74	79*p*
Crude petroleum	94	84	85	86*p*
Electric power	90	89	89*p*	90*p*
Cement	62	54	63	67
Cotton consumption	79	90	91	96
Wool consumption	45	90	89	118*p*
Shoes	82	101	101*p*	104*p*
Meat packing	84	90	90	91
Tobacco products *r*	92	90	86	95
Machine tool orders *	121	111	108	103
Employment				
Employment, manufacturing, U. S.	95	82	83	85*p*
Employee hours, manufacturing, U. S.	80	71	73	75*p*
Construction				
Residential building contracts r	27	42	44	42
Nonresidential building and engineering contracts *r*	54	65	83	79
Primary Distribution				
Car loadings, merchandise and misc.	80*r*	75	77	79
Car loadings, other	79*r*	70	75	76
Exports	88	78	78	75
Imports	85	76	69	74
Distribution to Consumer				
Department store sales, U. S.	86*r*	83	81	87
Department store sales, 2nd District	81*r*	80	75	79
Chain grocery sales	98	104	107	111*p*
Other chain store sales	93	92	95	93
Mail order house sales	91*r*	90	88	90
New passenger car registrations	81*r*	43	69	76*p*
Velocity of Deposits†				
Velocity of demand deposits, outside New York City (1919-25 average = 100 per cent)	72	61	62	65
Velocity of demand deposits, New York City (1919-25 average = 100 per cent)	44	38	40	36
General price level† (1913 average = 100 per cent)	156	154	155	154*p*
Cost of living† (1913 average = 100 per cent)	152	148	148	147*p*
Composite index of wages† (1926 average = 100 per cent)	111	109	109	109*p*

p Preliminary. * Not adjusted for price changes.
r Revised. † Not adjusted for trend.

Employment and Payrolls

Employment in nonagricultural pursuits increased slightly further during November, according to the report of the Secretary of Labor, extending the gain in working forces since June to about 1,000,000 persons. There is usually a decline between October and November. A net gain in employment in manufacturing industries, accompanied by increases in working forces at retail and wholesale trade establishments, exceeded personnel reductions, largely of a seasonal character, in construction and other nonmanufacturing industries.

A further advance of 1 per cent in factory employment and a fractional gain in factory payrolls during November were contrary to the usual movement at this time of year, and brought the number of workers and total wage disbursements to the highest levels since December, 1937. As in the previous month, increasing activity in durable goods industries accounted for the gain in factory employment, automobile plants and steel mills showing the most substantial reemployment. On the other hand, seasonal curtailment of working forces in canning, men's and women's clothing, and shoe plants was reflected in a slight reduction in employment in the nondurable goods classification. Compared with November, 1937, total factory employment was 10½ per cent lower and payrolls 9½ per cent less.

Conforming with usual seasonal tendencies, factory employment in New York State declined about 1 per cent from October to November, and factory payrolls were reduced approximately 3 per cent. Further seasonal declines occurred in the number of workers at clothing and millinery, and canning and preserving factories, while metal and machinery plants continued to increase their working forces. Observance of Election Day and Armistice Day holidays at many factories during the reporting period in November tended to lower payrolls somewhat more than employment. Compared with November, 1937, employment was 5½ per cent lower and payrolls were 5 per cent less, but these figures represent the most favorable year-to-year comparisons thus far in 1938.

Foreign Trade

During November this country's foreign merchandise trade showed declines of about the usual seasonal proportions, thereby reversing the upward tendency of the previous three months. Exports, valued at $252,000,000, were 20 per cent smaller than a year previous, and imports of $176,000,000 showed approximately the same percentage decline. The $76,000,000 excess of exports was smaller than that of October, but it increased the export balance for the first eleven months of 1938 to $1,036,000,000, a larger amount than for any calendar year since 1928.

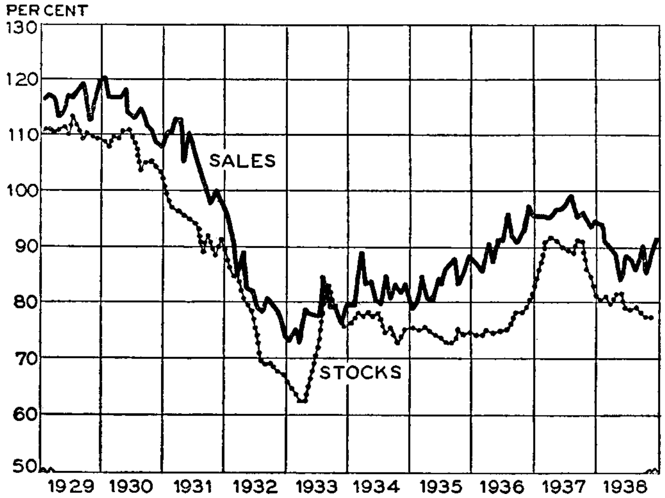
Every major group of exports and imports in November continued to contribute in some degree to the decline in aggregate value from a year previous; and all imports except crude foodstuffs were smaller in value than in the previous month. Among the exports, the largest relative declines from November, 1937 occurred in shipments of semimanufactures and crude materials, both of which showed a reduction in value of 30 per cent. In these categories, reduced shipments of such commodities as raw cotton, unmanufactured tobacco, and semimanufactured products of lumber, petroleum, and iron and steel were the principal factors responsible for the decreases. Exports of wheat, among the crude foodstuffs, were less than half as great in value as a year previously, when the amount was comparatively large, although they showed a substantial increase over the previous month. Shipments of passenger automobiles and motor trucks continued to be smaller than a year previous, but were larger than in October.

Among the imports, declines in value from November, 1937 ranged from 24 per cent in the case of semimanufactures to a fraction of 1 per cent in the case of crude foodstuffs. Receipts of the partly finished products of copper and tin were less than half the value of a year ago, and substantial declines occurred in the value of imports of woodpulp, fertilizers, and inedible oils. Among the crude materials, increased receipts of unmanufactured wool and raw silk were more than offset by decreases in the value of imports of other textile fibers, crude rubber, and petroleum. Larger imports of coffee nearly counterbalanced decreases in receipts of other types of crude foodstuffs. A decline in sugar imports accounted chiefly for the decrease in the value of imports of manufactured foodstuffs. Imports of nearly all leading manufactured products were smaller in value than a year ago.

Department Store Trade

For the four weeks ended Saturday, December 24, the dollar volume of department store sales in this District was about 1 per cent above the sales of the corresponding four week period of 1937. This period of 1938 included one more shopping day than the corresponding four week period of 1937, but nevertheless, after adjustment to an average daily basis, it appears that sales showed somewhat more than the usual seasonal advance during December, when retail business always reaches the highest level of the year. As is indicated in the accompanying diagram, which includes an estimate of sales for the whole month of December based on the four weeks ended December 24, there has been a moderate net recovery in department store sales in this District from the low point of last May. Department store stocks of merchandise appear to have declined slightly further during this period, following a more substantial reduction in the latter part of 1937. Total department store sales for the year 1938, based on final figures for 11 months and the estimate for the full month of December, were about 7 per cent smaller in dollar volume than in 1937, as compared with an increase of 3.7 per cent between 1936 and 1937.

November sales of the reporting department stores in this District were 5 per cent lower than in November, 1937, the smallest year-to-year reduction since last



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

April, when the comparison was affected by the late date of Easter. Sales of the leading apparel stores in this District were about 4 per cent lower than in November, 1937, the most favorable year-to-year comparison since October, 1937.

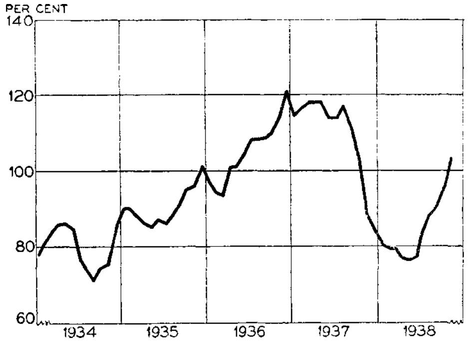
Stocks of merchandise on hand in the department stores, at retail valuation, were about 9½ per cent lower at the end of November, 1938 than at the end of November, 1937, and apparel store stocks were approximately 10½ per cent lower. Collections continued slower in 1938 than in 1937 in the department stores, but were somewhat better in the apparel stores.

Locality	Percentage change November, 1938 compared with November, 1937		Per cent of accounts outstanding October 31 collected in November	
	Net sales	Stock on hand end of month	1937	1938
New York and Brooklyn	— 5.5	— 9.0	51.2	50.4
Buffalo	— 5.2	—10.2	43.8	42.7
Rochester	— 3.3	—13.7	56.4	56.0
Syracuse	— 3.7	— 7.9	45.0	43.7
Northern New Jersey	— 3.3	—11.3	45.8	43.9
Bridgeport	— 1.3	— 5.5	41.7	41.0
Elsewhere	— 4.4	— 6.4	34.8	35.3
Northern New York State	— 9.6	......	....	....
Southern New York State	— 2.8	......	....	....
Central New York State	— 6.0	......	....	....
Hudson River Valley District	— 5.0	......	....	....
Westchester and Stamford	— 1.6	......	....	....
Niagara Falls	— 5.3	......	....	....
All department stores	— 4.9	— 9.4	48.4	47.4
Apparel stores	— 4.2	—10.6	47.6	48.3

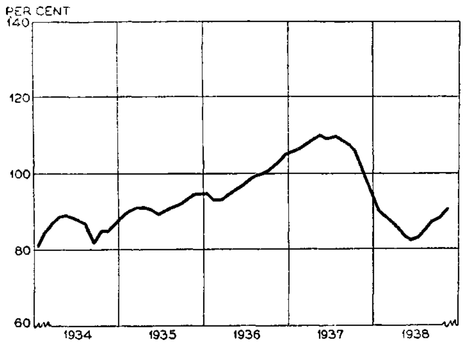
Department Store Sales and Stocks, Second Federal Reserve District (1923-25 average = 100)

	1937	1938		
	Nov.	Sept.	Oct.	Nov.
Sales, unadjusted	111	94	98	106
Sales, seasonally adjusted	93	90	85	89
Stocks, unadjusted	101r	82	89	92
Stocks, seasonally adjusted	85r	78	78	78

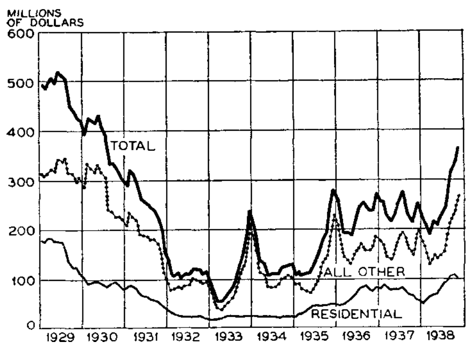
r Revised



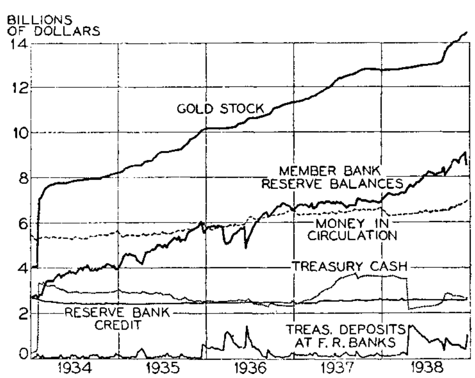
Index Number of Production of Manufactures and Minerals Combined, Adjusted for Seasonal Variation (1923-25 average=100 per cent)



Index of Factory Employment with Adjustment for Seasonal Variation (1923-25 average=100 per cent)



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



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

Business Conditions in the United States

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

THE sharp rise in industrial production, which began early last summer, continued in November. Preliminary reports for the first three weeks of December indicate some slowing down in the advance. Employment also increased in November and payrolls showed little change, although a decline is usual at this season. Distribution of commodities to consumers increased considerably.

Production

The Board's seasonally adjusted index of industrial production in November rose to 103 per cent of the 1923-1925 average from 96 per cent in October. Output of steel continued to increase, contrary to the seasonal trend, and there was a further sharp rise in automobile production. In the first three weeks of December activity at steel mills declined somewhat more than seasonally, while output of automobiles continued at the high level reached at the end of November. Lumber production in November decreased by more than the usual seasonal amount. In the nondurable goods industries, shoe production declined seasonally, while output of textiles showed a considerable expansion, with increased activity at cotton, wool, and silk mills. At mines, bituminous coal output increased further and production of anthracite showed less than the usual seasonal decline. Output of petroleum showed little change.

Value of construction contracts awarded in November showed a decline from the high level reached in October, according to F. W. Dodge figures for 37 Eastern States. Private and public projects both declined, following increases in October. The decline in contracts for private residential building was less than seasonal.

Employment

Employment increased somewhat further and payrolls showed little change between the middle of October and the middle of November, although declines are usual at this time of year. In manufacturing the number employed continued to rise, reflecting principally a further sharp increase at automobile factories and substantial increases in the machinery, steel, and textile industries. Employment declined seasonally at establishments producing clothing and shoes; in most other industries employment increased somewhat. In lines other than manufacturing, employment showed some increase, when allowance is made for usual seasonal changes.

Distribution

Distribution of commodities to consumers showed a considerable increase in November. Department store sales and mail order sales, which had been retarded in October by unseasonably warm weather, rose sharply, and sales at variety stores also increased in November. Sales of automobiles to consumers expanded sharply following the introduction of new models and in November were larger than a year earlier.

Freight car loadings, which had increased considerably in previous months, showed a slightly less than seasonal decline in November.

Commodity Prices

Prices of some industrial materials, such as nonferrous metals, hides, and cotton goods, decreased somewhat from the middle of November to the third week of December. Sugar prices also declined, while grains advanced somewhat. Prices of most other agricultural and industrial commodities continued to show little change.

Bank Credit

In connection with preholiday trade, there was a sharp increase in money in circulation and as the result of this increase in the demand for currency, together with Treasury operations around December 15, there was a temporary decline in member bank reserves.

Following declines during November, total loans and investments of reporting member banks in 101 leading cities increased during the first three weeks of December, largely reflecting operations of the Treasury. Loans to security dealers by New York banks increased sharply, reflecting temporary borrowing for the purpose of carrying Government securities exchangeable for new issues on December 15. Adjusted demand deposits rose to a new high level in the first half of December.