MONTHLY REVIEW
of Credit and Business Conditions
Second Federal Reserve District

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

Money Market in January

There was renewed accumulation of funds in member banks in New York City and elsewhere during January, due to the combined effect of the seasonal retirement of currency from circulation, a reduction in Treasury deposits in Federal Reserve Banks caused by an excess of Government expenditures over receipts, and a further moderate inflow of gold from abroad. Excess reserves of member banks rose to new high levels during the latter part of January in New York City, and also in the country as a whole, as the accompanying diagram indicates. In New York City the amount of excess reserves on January 25 was above $2,100,000,000, and for the entire country the amount was $3,600,000,000.

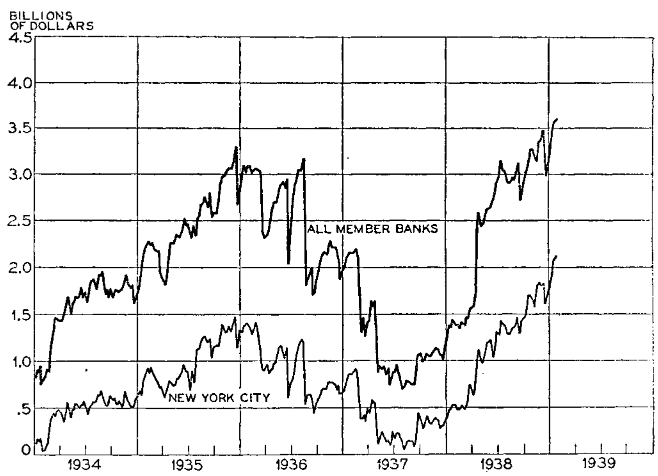
The January increase in member bank reserves, however, was somewhat smaller than was anticipated, for two principal reasons. First, the return flow of currency to the Reserve Banks after Christmas was less than usual, apparently reflecting a continued upward trend in the volume of currency outstanding. Second, net disbursements of funds from the Treasury account with Federal Reserve Banks proceeded at a less rapid rate than had been expected. Treasury receipts, which helped to reduce net disbursements, included the proceeds of a sale of $55,000,000 of Federal National Mortgage Association notes early in January, and the proceeds of unusually large sales of United States savings bonds during the month. Daily Treasury statements indicate that sales of United States savings bonds in January were considerably in excess of $100,000,000.

At the end of the month it appeared probable that disbursements of funds from Treasury deposits in the Reserve Banks would continue to be retarded during February, partly by quarterly receipts of social security taxes, and partly by receipts from the sale of the $100,000,000 issue of United States Housing Authority notes on February 1.

The huge volume of idle funds available for employment continued to constitute an underlying influence toward the maintenance of very low money rates, and in addition the Treasury bill market continued during the early part of January to be affected by special demands for Treasury bills. As in the latter part of December, sales of Treasury bills during the first two weeks of January were either at par, that is at no interest yield to the buyers, or at prices above par. The special demand in the early part of January was for Treasury bills maturing beyond April 1, the date on which bank deposits are assessed for taxation in the State of Illinois. Previously the special demand had been largely from institutions that wished to obtain short term Government securities for year-end statement purposes.

In view of the situation in the Treasury bill market, it became difficult toward the end of December for the Federal Reserve Banks to acquire new Treasury bills or other short term Govenment securities in the market to replace maturities of Treasury bills in the System Open Market Account. Treasury bills were not available in volume at or below par near the end of December, and it became necessary to replace maturing bills, to a considerable extent, with Treasury notes. In view of this situation, the following statement was issued on December 30.

> The Federal Open Market Committee announced, following a meeting today, that weekly statements of the total holdings in the Federal Reserve System's Open Market Account may at times show some fluctuation depending upon conditions in the market affecting the Committee's ability to replace maturing Treasury bills held in its portfolio. The volume of Treasury bills available on the market has declined materially during the year and, owing to the large and increasing demand, such bills are already selling either on a no yield basis or at a premium above a no yield basis. It has, therefore, become difficult and in some weeks impossible for the System to find sufficient bills on the market to replace those that mature. Short term notes are also selling on a no yield basis and longer term notes have at times been difficult to obtain. In



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

these circumstances, it may be necessary from time to time to permit bills held in the portfolio to mature without replacement, not because of any change in Federal Reserve policy but solely because of the technical situation in the market. Because no change in Federal Reserve policy is contemplated at this time, maturing bills will be replaced to the extent that market conditions warrant.

After the year end it developed, however, that some institutions were disposed to release holdings of Treasury bills that mature prior to April 1, and offerings of Treasury bills to the Reserve Banks increased moderately in the early part of January, notwithstanding a continued active demand for bills maturing after April 1. A somewhat larger supply of Treasury notes also became available later in the month. Consequently, it was possible to replace all of the maturities from the Federal Open Market Account during January without undue disturbance to the short term Government security market.

After the special demands for Treasury bills maturing early in April had been largely supplied, the prices bid for subsequent issues of bills declined somewhat, so that there was some small interest yield to the purchasers of such bills.

Money Rates

Aside from the situation in the Treasury bill market, the general tendency in money rates was toward even lower levels than in December. The prevailing rate on prime open market commercial paper, for instance, which was quoted at 5/8 per cent at the end of December, declined slightly further during January to 1/2-5/8 per cent. Yields on Treasury notes and bonds and on the highest grade corporation bonds also declined somewhat until the latter part of the month, when the movement was reversed for a time, accompanying a general decline in security prices, which was attributed largely to increased apprehension concerning developments abroad.

Money Rates in New York

	Jan. 31, 1938	Dec. 31, 1938	Jan. 30, 1939
Stock Exchange call loans	1	1	1
Stock Exchange 90 day loans	*1 1/4	*1 1/4	*1 1/4
Prime commercial paper—4-6 month	1	5/8	1/2-5/8
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	1.67
Average yield on Treasury notes (3-5 years)	1.13	0.69	0.65
Average yield on Treasury bonds (more than 12 years to maturity or call date)	2.65	2.48	2.47
Average rate on latest Treasury bill sale 91 day issue	0.10	0	0.01
Federal Reserve Bank of New York rediscount rate	1	1	1
Federal Reserve Bank of New York buying rate for 90 day indorsed bills	1/2	1/2	1/2

* Nominal

Member Bank Credit

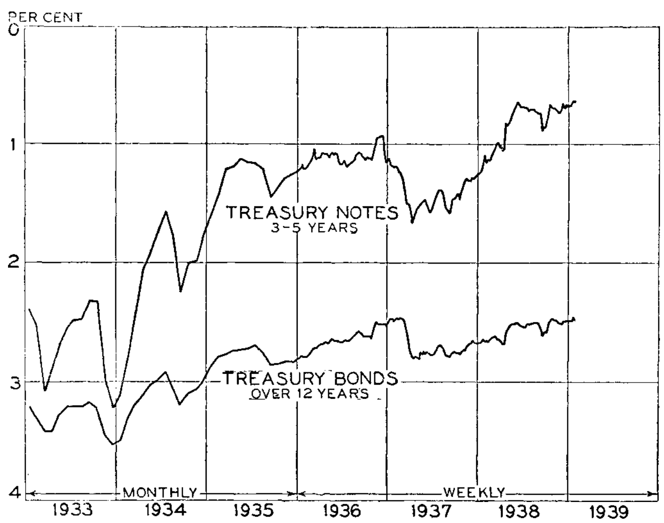
Weekly reports from the principal New York City banks showed a gradual decline in the total volume of loans and investments during the four weeks ended January 25. Loans to security brokers and dealers, which had risen in December, increased somewhat further over the year end, apparently as a result of temporary withdrawals of free credit balances from brokerage houses, but receded moderately during the first half of January. There was also some further decline in the loans of these banks to finance the purchase or carrying of securities by their customers, and a small net reduction in commercial and industrial loans. The principal reduction, however, was in holdings of direct obligations of the Government, apparently due largely to the special demands for Treasury bills from other districts which made it impracticable for the New York City banks to replace their maturities. Holdings of other securities, chiefly the State and municipal issues, showed a moderate increase in January.

Weekly reporting member banks in 100 other principal cities throughout the country also showed some reduction in their total loans and investments in January. There was a larger reduction in the volume of commercial, industrial, and agricultural loans than in New York City, and a small reduction in loans on securities, chiefly to brokers and dealers, which together more than offset a moderate increase in holdings of Government securities.

Demand deposits in the weekly reporting member banks in New York City and elsewhere increased in January, following the declines in the latter part of December, and for all reporting banks were on January 25 close to their previous peak. Interbank deposits also, reflecting the accumulation of idle funds in banks throughout the country, rose in January to approximately the highest levels ever reached.

Government Securities

Prices of Government securities advanced further during the first three weeks of January, under the impetus of an active investment demand which included substantial bond purchases by insurance companies and savings banks. During this period a number of Government security issues reached new highs since issuance. Reflecting this price advance, the average yield on Treasury bonds of more than 12 year term to call date or maturity receded 0.04 per cent to 2.44 per cent, which is slightly below the previous low reached in February, 1937, and the average yield on Treasury notes of 3 to 5 year maturity dropped 0.08 per cent to 0.61 per cent, also a new low—slightly under the level reached last June.



Average Yields on Treasury Bonds and Treasury Notes (Scale inverted to indicate movement of prices)

Between the 21st and 26th of January, however, the price tendency in the Government security market was reversed, in keeping with the declines which occurred in other security prices during the period, referred to later in this Review. Following the rise of about ½ point earlier in the month, the average price of Treasury bonds over 12 year term was reduced about ⅝ of a point in this period. The average yield on these issues consequently rose to 2.49 per cent, and reflecting price declines also in Treasury notes the average yield on 3 to 5 year maturities rose to 0.66 per cent. In the closing days of the month, the Government security market turned strong again, and both Treasury bonds and notes recovered a substantial part of the losses of the preceding week.

The prices at which the new 91 day Treasury bill issues were sold during the first three weeks of January were subject to an extraordinary influence arising out of the demand for these issues, which mature in April, for use in avoiding the Illinois tax on bank deposits levied as of April 1. The issues dated January 4 and 11 were sold at prices of par or above, and the issue of January 18 was sold at a price only fractionally under par. The issue of January 25, which matures April 26, however, was sold at an average price sufficiently below par to provide a yield of 0.007 per cent. This issue, although not subject to the same special demand as the three previous issues of Treasury bills, went at a very low rate, indicating the continuance of large investment demand for short term investments on the part of banks and large corporations. The total volume of Treasury bills now outstanding is only $1,300,000,000, as compared with $1,950,000,000 a year ago and a peak amount of $2,650,000,000 in August, 1937. The four weekly issues of Treasury bills during January, each in the approximate amount of $100,000,000, replaced similar maturities.

On January 25, the Treasury, on behalf of the United States Housing Authority, offered for subscription at par and accrued interest, $100,000,000 of 1⅜ per cent 5 year notes of the Authority, dated February 1. This issue, which is fully guaranteed by the United States, was heavily oversubscribed.

Commercial Paper and Bills

During January average grade prime commercial paper of 4 to 6 month maturity was sold in the open market at ½ per cent in sufficient quantities to reduce the prevailing rate for this class of paper to a range of ½-⅝ per cent. This compares with a ⅝ per cent rate which had been quoted since November, and with a 1 per cent rate in January, 1938. The commercial paper market generally remained quiet, owing to the small quantity of new paper currently acquired by dealers for resale. The investment demand for high grade names meanwhile continued very active. The amount of paper outstanding through commercial paper houses at the end of December was $186,900,000, a decline of 9 per cent from the November figure, induced by seasonal influences. During the year 1938 the reduction amounted to 33 per cent, which indicates the extent to which the market supply of paper has been diminished.

The small volume of acceptances available to dealers continued to restrict the activity of the bill market during January, and no change occurred in quoted rates. The amount of bankers acceptances outstanding, which had shown a seasonal increase of $15,000,000 during the preceding three months, declined $3,000,000 in December, chiefly because of reductions in outstandings of domestic warehouse bills and in bills based on goods stored in or shipped between foreign countries. The December volume of outstanding bills was $73,000,000 less than a year previous, reflecting principally declines in import, export, and domestic warehouse bills.

(Millions of dollars)

Type of acceptance	Dec. 31, 1937	Nov. 30, 1938	Dec. 31, 1938
Import	117	95	95
Export	87	59	60
Domestic shipment	8	10	12
Domestic warehouse credit	70	49	45
Dollar exchange	2	3	3
Based on goods stored in or shipped between foreign countries	59	57	55
Total	343	273	270

Security Markets

Reflecting renewed apprehension over the European political situation and the development of irregular tendencies in domestic business activity, the general average of stock prices underwent a further net reduction during January from the November highs reached immediately after Election Day. Railroad stocks in the closing days of December and first few days of January advanced slightly above their November highs, but industrial stocks failed to reach the November highs, and in the subsequent part of January through the 26th irregular declines occurred in these two classes of stocks. For this period, industrial shares showed a net decline of about 14 per cent, reaching a level some 17 per cent below the November high and only 2 per cent above the lowest closing quotation reached in September at the time of the European crisis over the Czechoslovakian situation. Railroad shares on January 26 were 20 per cent below the early January high, but remained approximately 18 per cent above the September low. In the closing days of January there were sizable recoveries from the month's lows, but both classes of stocks ended the month lower than at the end of December. Public utility stocks showed little net change during January, and closed the month within 7 per cent of the November high. Turnover of stocks on the New York Stock Exchange was generally light, but on the day of largest price decline, January 23, increased to 1,870,000 shares.

In the corporation bond market, further advances in prices of high grade and second grade issues occurred during the first three weeks of January, but later in the month bonds, like stocks, were subject to price declines. Moody's Investors Service average of Baa bonds rose in the first three weeks of January by 1½ points and reached the highest level since September, 1937; the largest advances occurred in public utility issues, but industrial and railroad issues also advanced considerably. The succeeding net declines were the largest in railroad issues averaging about 2½ points, and the general average dropped about 1½ points, but remained higher than in most of December. With respect to high grade corporation bonds, Moody's average of Aaa bonds advanced more than 1 point in the first part of January to a new high level, but subsequently receded about 1 point, accompanying unsettlement of prices in other classes of securities. Later in the month about one-half of this decline was recovered.

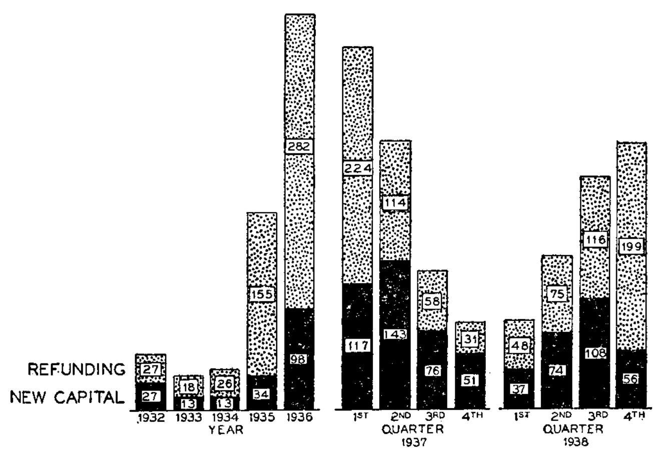
New Financing

New corporate security issues in January totaled only about $18,000,000, of which some $4,000,000 was for new capital. Of this total, which is the smallest for any month since January, 1935, about three-fourths was placed privately. The small amount of security flotations appears to have been due to an indisposition of potential borrowers to seek additional funds at this time rather than to any unwillingness of investors to buy high grade offerings.

New security issues by domestic corporations in 1938 totaled about $2,140,000,000, as against $2,435,000,000 in 1937, and $4,580,000,000 in 1936. The decline of about $300,000,000 in 1938 from 1937 was due to a drop in the amount of issues to provide new capital. Almost all of the difference between 1938 and 1936, however, was due to the much larger amount of refunding issues floated in 1936.

Corporate issues for new capital in 1938 amounted to about $825,000,000. Of this total about $225,000,000 was composed of issues of oil and natural gas companies, about $185,000,000 of steel company financing, including $30,000,000 of bonds by a railroad subsidiary of United States Steel Corporation, about $145,000,000 of electric and gas utility company issues, and about $30,000,000 of telephone issues; most of the remainder of the issues was of various manufacturing companies. Railroad companies issued $16,000,000 of equipment trust certificates, the only form of railroad securities for new capital purposes which were floated in 1938. The decline in railroad borrowing accounted for two thirds of the decrease in all new capital issues from 1937 to 1938.

Almost all the corporate securities floated in 1938 were bonds, notes, or debentures. Some preferred stock —including three issues of five to fifteen million dollars— was sold, but only a very small amount of common stock was floated. About $650,000,000 of issues was placed privately with insurance companies and banks in 1938, a considerable increase over the 1937 volume of new issues placed in this manner.



Monthly Average Volume of Domestic Corporate Security Issues for Refunding and for New Capital (In millions of dollars)

According to the Commercial and Financial Chronicle, bond awards in 1938 by States, local governments, and United States possessions amounted to about $1,100,000,000, as against $910,000,000 in 1937. Municipal issues for new capital in 1938 seem to have been less than maturities and sinking and pension fund purchases of outstanding issues, so that the amount of such securities outstanding probably declined somewhat during the year.

Foreign Exchanges

During the early part of January, the principal European currencies strengthened against the dollar, as the British authorities took steps to bolster the forces defending the pound sterling. After the middle of the month, however, increasing tension in Europe, occasioned by such developments as the dismissal of Dr. Schacht from the Reichsbank on January 20 and the capture of Barcelona by the Insurgent Spanish army on January 26, gave the exchange market a weaker and a nervous undertone, although rates were held steady except in the case of the guilder.

Sterling showed a net gain of 3½ cents for the month after going from $4.64 on December 31, 1938, to $4.62½ on January 3 when trading reopened in this market after the holidays. On January 5 the Bank of England requested that the London market refrain from transactions in forward gold and from facilitating advances against gold and further that banks in the London market scrutinize foreign exchange operations with a view to eliminating undesirable transactions. The Bank of England also asked for the cooperation of the authorities in certain foreign markets in limiting speculation against sterling by way of gold operations. On January 6, the Bank of England transferred £200,000,000 in gold, valued at the statutory rate (£350,000,000 at current prices), to the Exchange Equalisation Account. The effect of these measures, which showed a determination on the part of the British authorities to maintain the pound, was to bring about a rally in sterling under the impact of short covering, which carried quotations from $4.62½ on January 3 to $4.68⅛ on January 7. Coincident with this rise, the price of gold in London fell from 150s 5d on January 4, an all time record, to 148s 9½d. A reaction to $4.67 and a renewed firming to $4.68⅜ on January 18 occurred before the dismissal of Dr. Schacht caused the rate to ease again to $4.67½ where it was held steady within a very narrow range for several days before closing the month at $4.67 13/16. Quotations on forward sterling improved during the month from a discount equivalent to 2¼ per cent per annum for three month contracts on January 4 to 1¼ per cent at the month end. It was reported that intervention in the forward market by British exchange authorities was an important factor in narrowing the discount.

In sympathy with sterling, the French franc weakened in New York at the opening of the year to $0.0261 15/16, recovered to $0.0264 1/16 on January 7, and remained firm within a range of one point for the remainder of the month, despite the heightening of Franco-Italian tension as the Insurgent army advanced on Barcelona. In London, the franc was at its highest level in terms of sterling on January 3, when the quotation was 176.62 francs per pound; it subsequently weakened to 177.43 on January 13, but closed the month at 177.

Considerable weakness developed in the guilder during the month, partly as a result of the disturbed European political situation and partly because of the transfer abroad of the proceeds of loans floated in the Amsterdam market. From a high of $0.5441 in the New York market on January 7 the guilder fell to a low of $0.5363 near the month end before recovering to $0.5402, while in London it depreciated from 8.51 guilders per pound on January 3 to 8.72 on January 28, and 8.69 at the end of the month. The Swiss franc declined from $0.2260 on January 3 to $0.2257 near the month end, but recovered to $0.2259½ on January 30; it eased against the pound sterling over the month from 20.48 francs to the pound to 20.71¾.

Gold Movement

Gold continued to flow into the United States during January, but the total increase in this country's gold stock for the month, amounting to approximately $175,000,000, while substantial, showed a further decline in the rate of gold acquisitions from the peak level of last September. The inflow of gold, which began the month in sizable amounts, diminished for about ten days ending around the middle of the month, following the development of a firmer tendency in the pound sterling, but increased again in the second half of the month after the pound and the Dutch guilder had weakened somewhat.

For the month of January, the rise in the gold stock was due to currently reported imports of $97,200,000, to gains through transactions in foreign earmarked accounts of about $10,500,000, and to gains through other transactions aggregating $65,000,000. The larger part of the imports, totaling $75,300,000, was received at New York—$45,000,000 from England, $19,800,000 from Holland, $10,300,000 from Canada, and $200,000 from Mexico. On the West Coast, a total of $21,900,000 was received, consisting of $16,500,000 from Japan, $4,100,000 from Australia, and $1,300,000 from China.

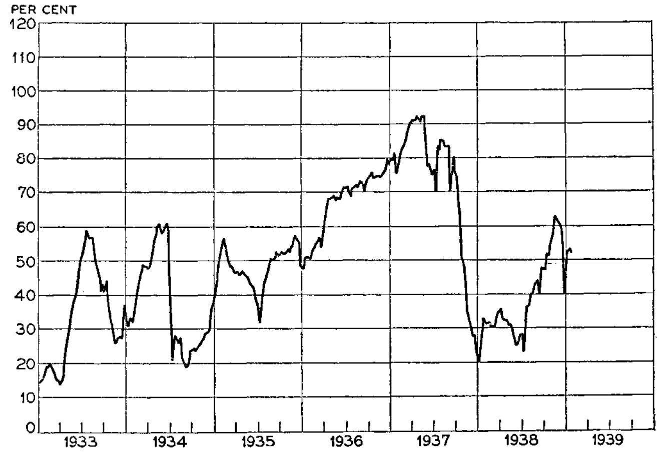
Central Bank Rate Changes

The discount rate of the Bank of France, as well as its rate for 30 day loans on specified Government securities, was lowered from 2½ to 2 per cent effective January 4, 1939. Simultaneously the rate for 90 day advances was reduced from 3½ to 3 per cent. The last previous change in this bank's rates was made on November 25, 1938.

Effective January 1, the rediscount rate of the Bank of Latvia, applicable to banks, was reduced from 5 to 4½ per cent and the rate for other borrowers was lowered from 5½ to 5 per cent. The higher rates had been in force since November 1, 1936.

Production and Trade

Judging from preliminary information, after allowance for seasonal changes, the general level of production and trade appears to have declined somewhat in January. Steel mill activity, as shown in the accompanying diagram, was maintained during the month at slightly over 50 per cent of capacity. The indicated rate corresponds closely with the average for December, whereas in most other years a rather pronounced increase has occurred. Between the middle of July and the middle of November steel mill activity had nearly trebled, but a downturn occurred in the last few weeks of the year, reflecting in part year-end inventory taking and holiday shutdowns. Cotton textile mill activity was reported to have been little changed in January, but as in the case of steel production, an increase usually occurs at this time of the year. Automobile assemblies were well maintained, but in the first three weeks of the month bituminous coal production, railway freight traffic, and retail trade in this District were lower after seasonal adjustments.

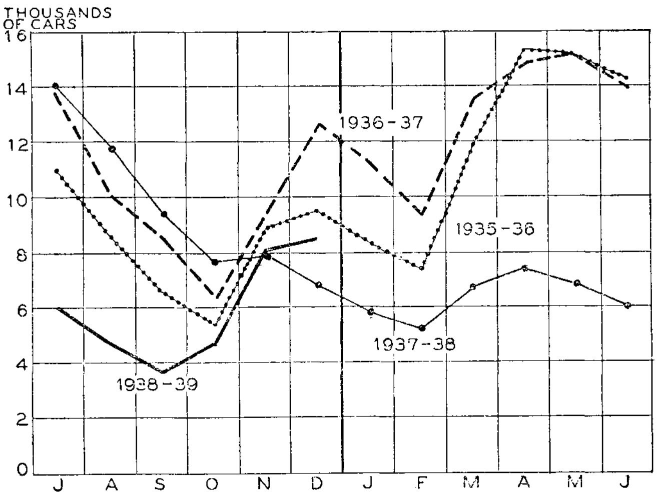


Steel Mill Activity (Ingot output expressed as percentages of capacity)

There appears to have been a slight further advance in the general level of production and trade during December, following the rapid rise which occurred between June and November. Although declines of more than usual seasonal magnitude occurred in steel production, wool consumption, and meat packing operations, generation of electric power showed a greater increase than in most other years, and reductions in cotton consumption, shoe production, and copper output were less marked than is usually the case at this time of the year. Automobile assemblies and the manufacture of tobacco products were well maintained, and orders for machine tools expanded.

Department store sales in the United States showed about the usual sharp advance during December; in this District the increase was larger than usual. Sales by mail order houses and chain stores increased more than in most other years, and less than the usual decline was shown in the movement of freight over the railroads.

The following diagram shows the daily average rate of registrations of new passenger cars since July, 1935. From July through September of 1938, registrations were well below the levels of the corresponding months of the three preceding years, but in October registrations increased, reflecting improved conditions of demand and early completion of model change-overs,



New Passenger Automobile Registrations in the United States
(Daily average figures)

and there were further gains in November and December. This record is in sharp contrast with that of 1937, when registrations failed to increase after the introduction of new models.

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

	1937	1938		
	Dec.	Oct.	Nov.	Dec.
Industrial Production				
Steel	38	71	85	80
Copper	81*r*	82	92	95*p*
Passenger cars *r*	61	82	84	83
Motor trucks *r*	113	42	82	87
Bituminous coal	81*r*	74	80	79*p*
Crude petroleum	95	85	85	86*p*
Electric power	87	89	90*p*	92*p*
Cement	63	63	67	71
Cotton consumption	73	91	96	104
Wool consumption	50*r*	89	110	104*p*
Shoes	85	102	113*p*	125*p*
Meat packing	87	90	91	87
Tobacco products	93	86	95	95
Machine tool orders*	128	108	103	127
Employment				
Employment, manufacturing, U. S. *r*	96	89	91	93*p*
Employee hours, manufacturing, U. S.	73	73	74	76*p*
Construction				
Residential building contracts *r*	19	44	42	40
Nonresidential building and engineering contracts *r*	62	83	79	112
Primary Distribution				
Car loadings, merchandise and misc.	76*r*	77	79	81
Car loadings, other	77*r*	75	76	79
Exports	94	78	75	80
Imports	86	69	74	73
Distribution to Consumer				
Department store sales, U. S.	84*r*	81	87	87*p*
Department store sales, 2nd District	82	75	79	81*p*
Chain grocery sales	98	107	111	114*p*
Other chain store sales	95*r*	95	93	100*p*
Mail order house sales	94*r*	88	90	95*p*
New passenger car registrations *r*	62	66	81	80*p*
Velocity of Deposits†				
Velocity of demand deposits, outside New York City (1919-25 average = 100 per cent)	69	62	65	66
Velocity of demand deposits, New York City (1919-25 average = 100 per cent)	50	40	36	44
Prices and Wages†				
General price level (1913 average = 100 per cent)	155	155	154	154*p*
Cost of living (1913 average = 100 per cent)	151	148	147	148
Composite index of wages (1926 average = 100 per cent)	112	109	110	110*p*

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

Building

Owing to the placement of a large amount of contracts for Public Works Administration projects prior to the December 31 dead-line, total construction contracts awarded in December in the 37 States covered by the F. W. Dodge Corporation reached the highest level for any month since June, 1930. The average daily rate of contracts awarded in December exceeded the November average by 14 per cent. Although residential work declined about as in most other years, heavy engineering awards, which include Public Works Administration contracts, registered a large contraseasonal advance, and other nonresidential contracts showed a small gain contrary to the usual movement. Compared with December, 1937, total contracts were 86 per cent higher, the largest increases occurring in the heavy engineering and residential classifications. For the calendar year 1938 total contracts were 10 per cent larger than in 1937. Although commercial and industrial awards were considerably lower than in the preceding year, all of the other major categories registered advances, as the following table indicates.

Percentage Change in Average Daily Contracts

	37 States		N.Y. and Northern N.J.	
	Dec., 1938 compared with Nov., 1938	1938 compared with 1937	Dec., 1938 compared with Nov., 1938	1938 compared with 1937
Building				
Residential	—15	+ 9	— 21	+20
Commercial and industrial	—24	—45	— 25	—19
Public purpose*	+14	+35	+ 22	+15
All building	— 3	0	— 7	+10
Engineering				
Public works	+43	+44	+ 153	+11
Public utilities	+99	+10	+1,187	+55
All engineering	+55	+34	+ 287	+28
All construction	+14	+10	+ 40	+16

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

In the New York and Northern New Jersey area the daily rate of contract awards in December was 40 per cent above the November average. The greater increase in this District than in the 37 States may be explained partly by the fact that the decline in contract awards in November had been considerably more pronounced here than elsewhere. The placing of Public Works Administration contracts caused a sharp increase in heavy engineering contracts in December, and awards for buildings designed for various public purposes were also higher than in November. Residential and commercial and industrial building, however, declined further. Compared with December, 1937, total contracts were 81 per cent higher, and, with the exception of commercial and industrial building, all of the major classifications registered sizable advances. Building and engineering contracts for the year 1938 were 16 per cent above the total for 1937.

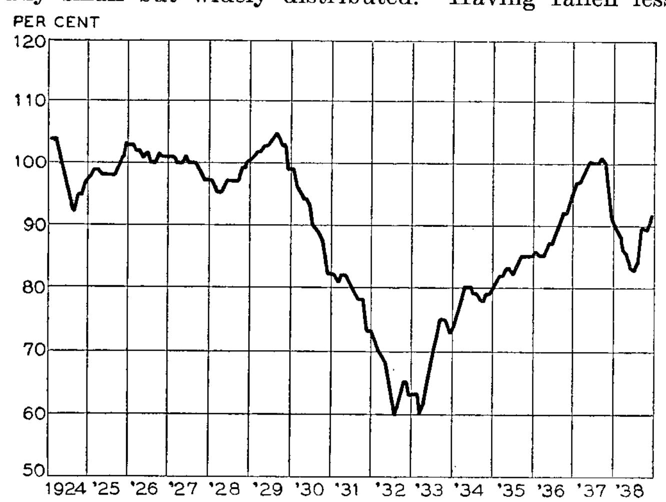
Following the exceptionally large volume of contracts placed during the latter part of December, associated with the December 31 dead-line for Public Works Administration projects, total contract awards in the 37 States declined sharply during the first three weeks of January. The daily rate at which contracts were awarded in this period was one-third below the average for December; all of the major construction classifications shared in the decline, but the decline in residential building contracts was, if anything, slightly less than is usual for the time of year. Compared with the first three weeks of January, 1938, however, total contracts were 13 per cent higher; residential and nonresidential building contracts, which had been at a low ebb a year ago, showed sizable increases, but heavy engineering awards were considerably lower.

Employment and Payrolls

According to estimates prepared by the United States Department of Labor, there was a further rise in December of 200,000 in the employment of persons in pursuits other than agriculture, bringing the total gain since July to almost 1,200,000 workers. The leading feature of the month was a gain of 440,000 in retail trade, reported as the largest December increase in any one of the last ten years. There was also a rise of approximately 50,000 in employment of factory workers, but these gains were offset in substantial part by declines in the number of persons employed in various other nonagricultural lines.

The rise in factory employment represents an increase for the month of about one-half of 1 per cent. After adjustment for the decline which is usual at this time of year, the index of United States factory employment rose about 1½ per cent to the highest level since December, 1937. From June to December, the adjusted index rose about 11 per cent and recovered approximately one-third of the preceding decline from the peak in 1937. In December, as in immediately preceding months, the number of workers in factories manufacturing durable goods increased more rapidly than at nondurable goods plants. Factory payrolls increased 3 per cent between November and December, whereas usually there is little change.

New York State factory employment, after seasonal adjustment, increased about 2 per cent in December. Gains in the various industrial classifications were generally small but widely distributed. Having fallen less



Index of Factory Employment in New York State, Adjusted for Seasonal Variation (1925-27 average = 100 per cent)

from the high point of 1937 than factory employment in the country as a whole, New York State factory employment in December was 9 per cent below the peak reached in 1937, as against 16½ per cent for the United States. As shown in the accompanying chart, New York State factory employment in December was at approximately the same level as in the corresponding month of 1937, and at a level about midway between the 1937 high and the 1938 low. Payrolls increased 4 per cent, or more than usual between November and December, to a level 2 per cent higher than in December, 1937.

Commodity Prices

Prices of most of the actively traded commodities continued to move within a narrow range during January, and Moody's Investors Service index of 15 raw products at the end of the month stood close to the level prevailing a month earlier. This index has shown only minor fluctuations for several months, moving within a range of only about 4½ per cent since early last August. The current index is about 10 per cent above the 4½ year low established the first of last June.

One of the wider movements during January occurred in the price of raw silk, which advanced 9 cents further to $1.92½ a pound, the highest level since July, 1937; near the end of the month the price declined to $1.90½. Silk prices were stimulated by the raising of the maximum and minimum prices by the Japanese raw silk stabilization committee, and by a report that the 1938 Japanese cocoon crop was about 12½ per cent smaller than in 1937. The upward tendency shown in wheat prices in December continued during the early part of January, reflecting chiefly continued reports of unfavorable weather conditions in the domestic wheat belt, together with an absence of offerings of the new Argentine crop. Prices moved irregularly during the remainder of the month, but the cash quotation for Number 1 wheat at Minneapolis closed January at 78⅛ cents a bushel, 1⅜ cents above the end of December, reaching in the latter part of the month the highest level since last August. Moderate increases also occurred in the prices of domestic wool and hogs, while cotton prices showed no material change during the month.

After rather sizable increases in the previous month, corn prices tended somewhat lower during January; the cash quotation for the Number 3 yellow grade at Chicago receded 2¼ cents to 50 cents a bushel, thereby canceling about one-half the December advance. Some weakness developed also in crude rubber prices during January, and the spot quotation ended the month at 15 11/16 cents a pound, 11/16 of a cent below a month ago. Further declines occurred in the prices of hides and raw sugar.

The price of scrap steel at Chicago rose 25 cents to $14 a ton during the past month, but some decline was shown in the prices of lead and tin. Spot quotations for other principal metals, however, held steady.

Foreign Trade

In December merchandise exports from this country were valued at $269,000,000, a somewhat larger amount than in the previous month, while imports, valued at $171,000,000, were slightly smaller than in November.

Compared with December, 1937, exports showed a decline in value of 17 per cent and imports 18 per cent; the year-to-year reduction in the case of exports was about the same as the average decline of recent months, but the decrease in the case of imports was the smallest for any month in 1938. Nevertheless, the merchandise export balance remained close to $100,000,000.

Large declines from a year ago occurred during December in exports of agricultural products, especially unmanufactured cotton and tobacco among the crude materials, and wheat in the category of crude foodstuffs. Aggregate exports of American cotton to all destinations were less than half the quantity and value in December, 1937, although this country's shipments of cotton to Japan were about three times the comparatively small volume of a year ago. Exports of nonagricultural origin as a whole showed a moderate decrease, as large declines in shipments of automobiles and iron and steel manufactures were partly counterbalanced by increases in a number of other items including aircraft, several lumber and petroleum products, and copper.

A majority of the leading economic groups and also of individual commodities contributed to the decrease from a year ago in the aggregate value of imports. Exceptions to the reduction in imports were larger receipts of coffee, meat products, vegetable oils, hides and skins, raw silk, unmanufactured wool, diamonds, nickel, and lumber products. Imports of sugar and tin were only about one-third of the December, 1937, value, and receipts of crude rubber were approximately 50 per cent smaller in both quantity and value.

For the calendar year 1938, exports from the United States amounted to $3,094,000,000 and imports to $1,961,000,000. The $1,133,000,000 excess of exports, which was the largest export balance for any year since 1921, was the combined result of comparatively well sustained exports, especially in the first half of the year, and a sharp contraction in imports; for the year as a whole exports declined 8 per cent from the 1937 level and imports 36 per cent. An important factor in the heavy export balance in 1938 was the increase in grain shipments, due to large crops in this country in 1937 and shortages elsewhere. Exports of such food products as fruits and meats, and shipments of aircraft, gasoline, industrial machinery, and tobacco showed substantial increases over 1937. On the other hand, coincident with the industrial recession in this country, nearly all types of imports were greatly reduced in volume and value from the preceding year. Notable decreases occurred in imports of such raw materials as wool, hides and skins, rubber, and silk, and also cocoa, furs, and tin. Calculations by the Department of Commerce of the quantity of merchandise entering this country's foreign trade, which allow for lower prices in 1938 than in 1937, indicate a volume of exports in 1938 equal to the 1937 volume, but a reduction of 29 per cent in the quantity of imports.

Department Store Trade

Total sales of the reporting department stores in this District during the first three weeks of January were about 12 per cent below the corresponding period of 1938, but there was one less shopping day in the 1939 period. On the basis of the three weeks' figures, it appears that more than the usual seasonal decline from the December average has occurred.

For the month of December, total sales of the reporting department stores in this District were only 1½ per cent lower than in December, 1937, but in December, 1938, there were five shopping Saturdays as compared with three in 1937. Stores in Northern New Jersey, Bridgeport, Westchester and Stamford, and the Hudson River Valley District reported sales somewhat higher than in December, 1937, while small reductions in sales were reported by the New York and Brooklyn, Buffalo, Rochester, Syracuse, Northern New York State, Southern New York State, and Central New York State department stores, and sales of apparel stores were about 1 per cent lower.

For the year 1938, total sales of the reporting department stores in this District were approximately 7 per cent lower than in 1937, as compared with an increase of 3.7 per cent from 1936 to 1937. Apparel store sales were 9.2 per cent lower than in 1937, following little change between 1936 and 1937.

Stocks of merchandise in the department stores, at retail valuation, were about 8 per cent lower at the end of December, 1938 than at the end of December, 1937; the decline in December, 1938 makes the thirteenth month of decrease in the year-to-year comparison of stocks. Collections of accounts outstanding were lower in December than a year previous, both in the department and apparel stores.

Locality	Percentage change from a year ago			Per cent of accounts outstanding November 30 collected in December	
	Net sales		Stock on hand end of month		
	Dec.	Jan. to Dec.		1937	1938
New York and Brooklyn	— 2.1	— 7.0	— 8.5	43.8	42.5
Buffalo	— 3.4	— 9.4	— 6.4	43.6	41.8
Rochester	— 4.1	— 3.9	—12.4	82.0	80.7
Syracuse	— 3.9	— 6.1	— 7.4	40.6	41.0
Northern New Jersey	+ 3.0	— 6.6	— 5.4	44.0	43.5
Bridgeport	+ 5.0	— 6.7	+ 0.7	42.6	44.6
Elsewhere	— 1.9	— 6.9	— 4.4	36.6	36.4
Northern New York State	— 7.6	— 7.8	......	....	....
Southern New York State	— 0.6	— 8.6	......	....	....
Central New York State	— 1.8	— 8.9	......	....	....
Hudson River Valley District	+ 0.2	— 2.6	......	....	....
Westchester and Stamford	+ 1.8	— 8.0	......	....	....
Niagara Falls	—12.3	—10.8	......	....	....
All department stores	— 1.5	— 6.9	— 7.9	46.1	45.3
Apparel stores	— 0.9	— 9.2	— 6.8	46.1	45.5

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

	1937	1938		
	Dec.	Oct.	Nov.	Dec.
Sales, unadjusted	169r	98	106	164
Sales, seasonally adjusted	94r	85	89	92
Stocks, unadjusted	80r	89	92	74
Stocks, seasonally adjusted	81r	78	78	75

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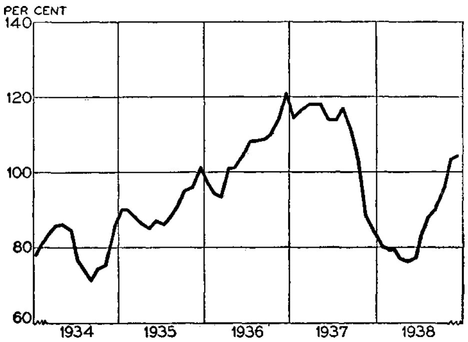
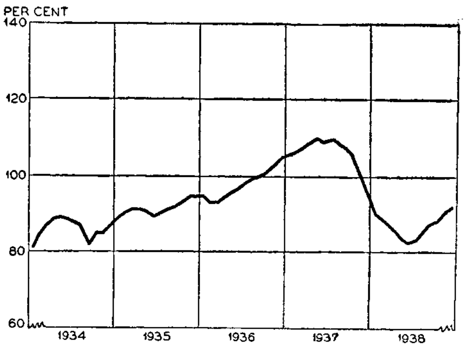
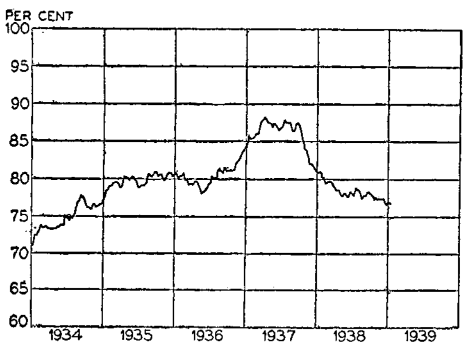
FEDERAL RESERVE BANK OF NEW YORK
MONTHLY REVIEW, FEBRUARY 1, 1939



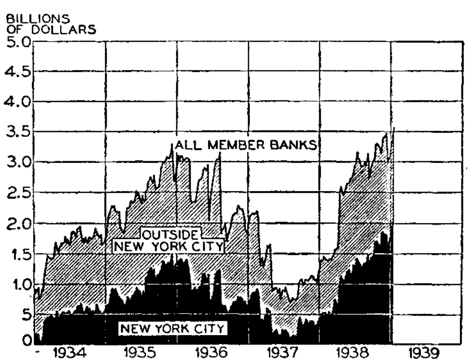
Index of Physical Volume of Industrial Production, Adjusted for Seasonal Variation (1923-25 average = 100 per cent)



Index of Number of Factory Workers Employed, Adjusted for Seasonal Variation (1923-25 average = 100 per cent)



Index of Wholesale Prices Compiled by the United States Bureau of Labor Statistics (1926 = 100 per cent)



Wednesday Figures of Estimated Excess Reserves for All Member Banks and for New York City Banks

Business Conditions in the United States

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

Volume of industrial production declined seasonally in December and showed little change in the first three weeks of January, when an increase is usual. Wholesale commodity prices were steady. Employment and payrolls increased further in December, and retail sales showed more than the usual seasonal rise.

Production

In December volume of industrial production declined by about the usual seasonal amount and the Board's adjusted index was at 104 per cent of the 1923-1925 average, about the level reached in November following an exceptionally rapid advance after the middle of the year. Changes in output in most lines in December were largely seasonal. In the steel industry, however, production showed a greater than seasonal decline, and averaged 54 per cent of capacity in December as compared with 61 per cent in November. Lumber production showed little change from November to December, although usually there is a decline, and at textile mills and shoe factories activity declined less than seasonally. At meat packing establishments there was a reduction in output.

Automobile production increased somewhat further in December. In the fourth quarter of 1938 production and sales of the new model cars were in about the same volume as in 1937; dealers' stocks of new cars increased seasonally in this period but at the year end were much below the high level of a year earlier.

Value of construction contract awards increased considerably from November to December, according to F. W. Dodge Corporation figures for 37 Eastern States. The increase reflected principally a further rise in contracts awarded for Public Works Administration projects, which accounted for most of the sharp increase in awards that occurred in the last half of 1938. Contracts for private residential building decreased less than seasonally in December, while other private construction showed little change and remained at a low level.

Employment

Employment and payrolls rose further between the middle of November and the middle of December. In most manufacturing lines the number employed continued to increase, when allowance is made for the usual seasonal changes, and in the automobile and machinery industries the rise was considerable. Employment and payrolls in trade increased more than is usual in the holiday season and in the construction industry employment showed much less than the usual seasonal decline.

Distribution

Distribution of commodities increased more than seasonally in December. Sales at department stores showed the usual sharp expansion prior to Christmas and sales at variety stores and mail order sales showed a more than seasonal rise.

Freight car loadings declined seasonally from November to December, reflecting largely the customary decrease at this time of year in shipments of miscellaneous freight.

Bank Credit

As the result of the post-holiday return of money from circulation, together with Treasury disbursements from its balances with the Reserve Banks, and gold imports, excess reserves of member banks increased nearly $600,000,000 in the four weeks ended January 18 to a new high level of $3,560,000,000. A large part of the increase occurred at New York City banks.

Total loans and investments of reporting member banks in 101 leading cities, which increased substantially in the first three weeks of December, declined in the following four weeks. There was some decline in loans and a reduction in holdings of United States Government obligations, reflecting in part distribution to the public of new securities purchased by banks in December. Deposits declined somewhat in the latter part of December but increased in January.

Money Rates and Bond Yields

Average yields on United States Government securities declined slightly in December and the first three weeks of January. For three consecutive weeks the entire new issue of 91 day Treasury bills sold on or slightly above a no-yield basis. Commercial paper rates declined slightly in January while other open market money rates continued unchanged.