MONTHLY REVIEW

of Credit and Business Conditions

Second Federal Reserve District

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

Money Market in February

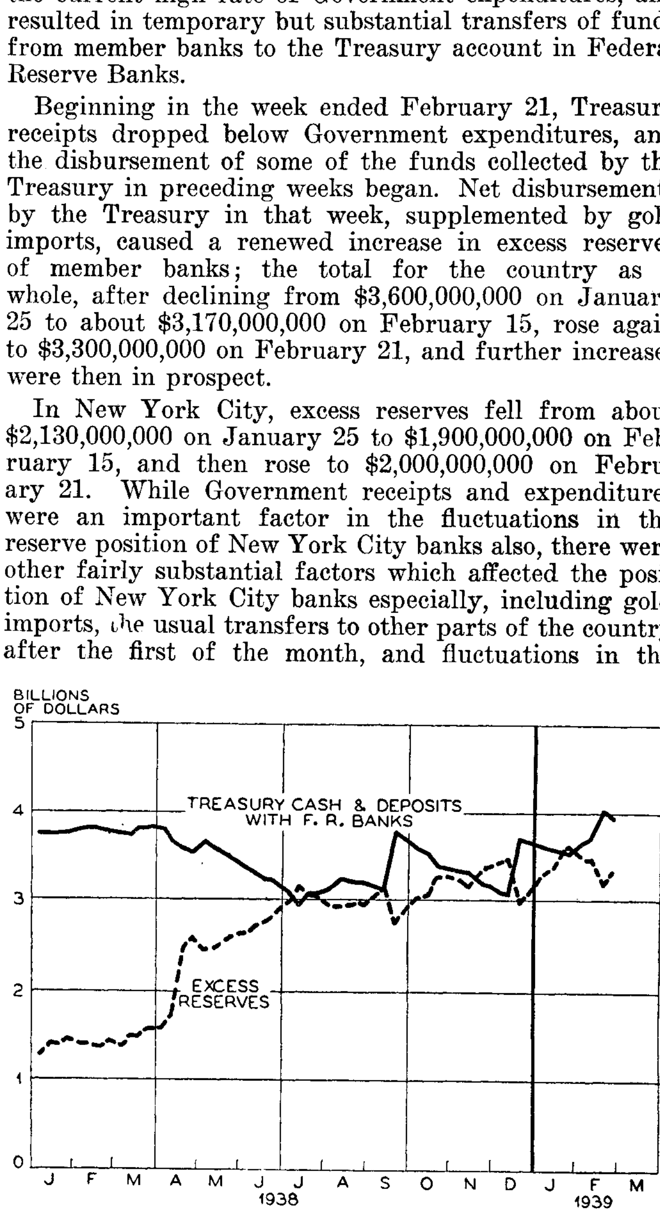
Money market conditions continued very easy in February, despite a fairly substantial reduction in excess reserves of member banks from the record levels reached the end of January. Yields on Treasury bonds and notes and on other high grade securities decreased slightly further to the lowest levels ever reached. The market for such securities has been relatively quiet but firm during most of the month.

Changes in member bank excess reserves during the past month, as on several other occasions within the past year, have been caused largely by changes in Treasury holdings of cash and deposits in Federal Reserve Banks, although they have reflected also several other factors, such as gold imports, increased demand for currency, changes in foreign central bank balances in the Reserve Banks, etc. As the accompanying diagram shows, the volume of Treasury cash and Treasury deposits in the Federal Reserve Banks increased $500,000,000 between January 25 and February 15, reaching a new high level at a figure in excess of $4,000,000,000. These Treasury funds included chiefly about $1,250,000,000 of deposits in Federal Reserve Banks, over $700,000,000 of gold in the general Treasury fund (of which nearly $600,000,000 represented "free gold"), and $1,800,000,000 of gold held for the Stabilization Fund. Treasury deposits in the Reserve Banks are the principal variable, as they represent the working balances in which tax collections and cash payments for new Treasury and Government guaranteed securities are deposited, and on which the Treasury draws to meet Government expenditures as occasion requires.

Two principal factors contributed to the increase in Treasury funds during the last week of January and the first two weeks of February. The first was the receipt of the proceeds of security sales, including an issue of $114,000,000 of notes of the United States Housing Authority on February 1, and a $310,000,000 issue of Reconstruction Finance Corporation notes on February 15, and also fairly sizable sales of United States savings bonds. The second principal factor was receipts of social security taxes and taxes on the railroads and their employees in connection with the Railroad Retirement Act, and receipts of unemployment trust funds from the States, the total of which was in the neighborhood of $340,000,000 between January 25 and February 15. Altogether, Treasury receipts of these types, added to ordinary revenue collections, greatly exceeded the current high rate of Government expenditures, and resulted in temporary but substantial transfers of funds from member banks to the Treasury account in Federal Reserve Banks.

Beginning in the week ended February 21, Treasury receipts dropped below Government expenditures, and the disbursement of some of the funds collected by the Treasury in preceding weeks began. Net disbursements by the Treasury in that week, supplemented by gold imports, caused a renewed increase in excess reserves of member banks; the total for the country as a whole, after declining from $3,600,000,000 on January 25 to about $3,170,000,000 on February 15, rose again to $3,300,000,000 on February 21, and further increases were then in prospect.

In New York City, excess reserves fell from about $2,130,000,000 on January 25 to $1,900,000,000 on February 15, and then rose to $2,000,000,000 on February 21. While Government receipts and expenditures were an important factor in the fluctuations in the reserve position of New York City banks also, there were other fairly substantial factors which affected the position of New York City banks especially, including gold imports, the usual transfers to other parts of the country after the first of the month, and fluctuations in the



Movements of Excess Reserves of All Member Banks and of Treasury Holdings of Cash and Deposits in Federal Reserve Banks

volume of deposits of foreign central banks and other nonmember banks at the Federal Reserve Bank of New York.

Another minor influence upon the reserve position of member banks in New York City and elsewhere was an upturn in the amount of currency outstanding in February, following the January reduction. The increase for the country as a whole during the four weeks ended February 21 was $85,000,000, or somewhat more than is usual for this time of year, indicating a continued upward trend in currency circulation. For a time there were indications of a renewed demand by foreigners for United States currency, but the demand did not continue for long, and probably accounted for a comparatively small part of the total increase. In the past year the increase in the amount of currency outstanding has amounted to nearly $400,000,000. Such an increase in periods when there were little or no excess reserves in member banks would have been sufficient to have had an appreciable effect on money market conditions and interest rates, but under the circumstances that have prevailed during the past year, the increased demand for currency has had no visible effect on money market conditions.

Money Rates in New York

	Feb. 28, 1938	Jan. 31, 1939	Feb. 28, 1939
Stock Exchange call loans............	1	1	1
Stock Exchange 90 day loans.........	*1¼	*1¼	*1¼
Prime commercial paper—4-6 month...	1	½-⅝	½-⅝
Bills—90 day unindorsed............	7/16	7/16	7/16
Customers' rate on commercial loans (Average rate of leading banks at middle of month)...............	1.63	1.67	1.63
Average yield on Treasury notes (3-5 years)...........................	1.04	0.62	0.57
Average rate on Treasury bonds (more than 12 years to maturity or call date)	2.62	2.45	2.39
Average rate on latest Treasury bill sale 90-91 day issue..................	0.092	0.005	0.004
Federal Reserve Bank of New York rediscount rate......................	1	1	1
Federal Reserve Bank of New York buying rate for 90 day indorsed bills....	½	½	½

* Nominal

Member Bank Credit

Total loans and investments of all weekly reporting member banks increased $278,000,000 in the four weeks ended February 21, but the reported figure was $100,000,000 less, due to a reclassification of certain assets of the banks, representing indirectly bank premises and other real estate, which involved the transfer of such assets from "real estate loans" and "other securities" to "other assets".

The principal increase during the four-week period was in securities fully guaranteed by the United States Government, which increased $260,000,000, ($181,000,000 at New York City banks and $79,000,000 at reporting member banks in 100 other principal cities), reflecting purchases of United States Housing Authority notes on February 1 and Reconstruction Finance Corporation notes on February 15. The other item of chief interest was a slight upturn in commercial and industrial loans between February 8 and February 21 following a persistent decline in such loans, largely seasonal in character, since early in December, 1938. Loans to security brokers and dealers declined further during the past month, but there was a moderate increase in holdings of securities other than direct obligations of the Government and securities guaranteed by the Government.

Demand deposits in the weekly reporting member banks showed a small reduction during the month; at New York City banks there was a further rise in such deposits to new high levels, but the increase in New York City was more than offset by a decline in reporting banks in other principal cities throughout the country.

Government Securities

On February 1, $114,000,000 of United States Housing Authority 5 year 1⅜ per cent notes, fully guaranteed by the United States Government, were issued at par, representing allotments of subscriptions to this issue, which was offered on January 25. On February 6, the Treasury, on behalf of the Reconstruction Finance Corporation, offered for subscription at 100¼ $300,000,000 of ⅞ per cent notes of the Corporation, due January 15, 1942, fully guaranteed by the United States Government. This offering, like the United States Housing Authority issue, was heavily oversubscribed, and $310,000,000 of the notes were issued on February 15. The issuance of these and other Government guaranteed securities tends to limit the rise in the direct debt of the Government. Toward the end of February the new United States Housing Authority notes were quoted at 101 5-7/32, and the new Reconstruction Finance Corporation notes at 100 18-20/32.

With respect to the direct Government debt outstanding with the public, the principal operations in February, aside from the continued sale of United States Savings bonds in substantial volume, were the sale by competitive bidding of four weekly issues of 3 month Treasury bills, each in the approximate amount of $100,000,000, which replaced similar maturities. Rates on these issues ranged between 0.002 and 0.005 per cent, which compares with a rate of 0.007 per cent on the last issue of January and with no yield on the issues earlier in January when Treasury bills were being sold at an average price somewhat above par. The reappearance of some slight interest return on these securities during the past month is attributable to the cessation of special demands for Treasury bills from some midwestern localities, where tax exempt securities of short maturity are in demand early each year for the purpose of reducing tax liability on the April 1 assessment date. But the persistence of extremely small yields reflects the limited supply of Treasury bills in the market and the very large supply of funds available for investment in such securities.

Prices of Treasury bonds advanced in a quiet market which existed during most of February to reach somewhat higher levels than in January. The advance from the end of January through February 27 amounted to about ⅜ point and the rise over the January peak amounted to ¼ point. As a consequence, the average yield on Treasury bonds not due or callable within 12 years reached a new record low of 2.42 per cent in this period. Yields on Treasury notes of 3 to 5 year maturity held rather steady for most of the month at levels slightly above the record low reached in January. Late on February 27, the Secretary of the Treasury indicated that the March quarterly financing program would not include any new issues to be sold on cash subscription but would be limited to securities to be issued in exchange for Treasury notes maturing in June of this year. Following this announcement, the Government security market turned more active and large advances occurred in prices both of Treasury bonds and of notes. As a result the average yields on Treasury bonds dropped further to 2.39 per cent on February 28 and the average yield on notes receded to 0.57 per cent, both new low levels.

Commercial Paper and Bills

The range of rates for average grade prime four to six month commercial paper during February continued to be reported as ½ to ⅝ per cent, the level which became effective in January. The large investment inquiry for open market paper was only partly filled, owing to the limited quantity of new paper which dealers were able to acquire for sale. Commercial paper houses reported paper outstanding at the end of January in the aggregate amount of $195,200,000, which represented a seasonal expansion of about 4 per cent over the December total. Compared with a year ago a contraction of about 35 per cent in the amount of paper outstanding was indicated.

The same conditions of limited supply and active demand that had existed in the bill market for a number of months past continued in evidence during February, and quoted rates were unchanged. The total amount of bankers acceptances outstanding at the end of January was approximately $15,000,000 smaller than in December, reflecting seasonal influences. As is indicated in the following table, the decline for the month, and for the year as well, was accounted for primarily by decreases in outstandings of import and export bills and domestic warehouse credits.

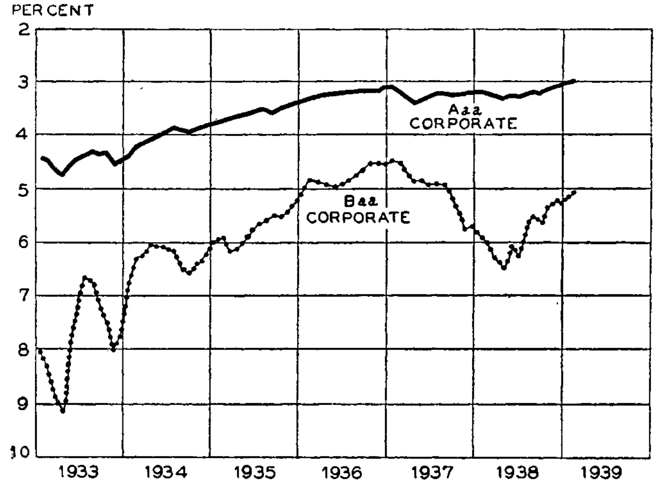
(Millions of dollars)

Type of acceptance	Jan. 31, 1938	Dec. 31, 1938	Jan. 31, 1939
Import	106	95	88
Export	82	60	57
Domestic shipment	8	12	11
Domestic warehouse credit	67	45	42
Dollar exchange	3	3	2
Based on goods stored in or shipped between foreign countries	60	55	55
Total	326	270	255

Security Markets

Stock prices fluctuated irregularly within an exceedingly narrow range during February in very inactive trading. Public utility stocks showed the largest movement, reflecting developments during the month in the T.V.A.—public utility industry controversy which were generally interpreted as favorable to an ultimate solution of the problem, but even in the case of utility stocks the net advance for the month was rather small, amounting on the average to 7 per cent. The general average of industrial, railroad, and utility stocks near the end of February was 4 per cent below the early January high and 8 per cent below the 1938 high reached immediately after Election Day.

Prices of railroad and public utility bonds of medium and lower grade advanced somewhat further in February, and Moody's average price of Baa bonds reached the highest level since September, 1937. Meanwhile, the highest grade corporation bonds, those rated Aaa, held rather steady at or close to the highest levels of record. The accompanying diagram showing average yields on the Aaa and Baa corporate bond classifications indicates that there has been a considerable narrowing of the spread between yields on Aaa bonds and those on Baa issues during recent months, reflecting the effects of business recovery on the medium and lower grade securities. There has been a more rapid decline in yields on Baa bonds than on Aaa bonds, i.e., a more rapid advance in the prices of Baa bonds. For the month of February yields on Baa bonds averaged 5.05 per cent, as against 3.00 per cent on Aaa bonds, or a spread of 2.05 per cent. This compares with a spread of 3.17 per cent in April, 1938, 1.31 per cent in February, 1937, and 4.34 per cent in April, 1933.



Monthly Average Yields on Aaa and Baa Corporation Bonds (Moody's Investors Service data)

New Financing

Although nearly nine times the total in January, the February volume of corporate security issues was well below the average in the last half of 1938, and flotations to provide funds for plant, equipment, and working capital were smaller than for any month in 1938 except February. Owing principally to refunding operations by the North American Company, corporate security financing in February, 1939, totaled about $160,000,000, but only $15,000,000 was for new capital purposes. Offerings during the month were indicated to have been well received, and continuing strong demand is reported for high grade investment issues. Several security flotations are now in prospect for late March or for April, but their total is still below the average for the more active periods in the last three years.

The North American Company financing, which occurred on February 1, took the form of $70,000,000 of 3½, 3¾, and 4 per cent debentures which were offered to the public, and $36,200,000 of 5¾ per cent preferred stock which was offered, first to holders of an issue being refunded, and the remainder to the general public. The proceeds of the issues were to be used partly to retire outstanding securities of a subsidiary in process of liquidation, to comply with the Public Utility Holding Company Act, and partly to refund an issue of 5 per cent debentures of the North American Company.

There were only three other corporate issues during the month which exceeded five million dollars. The American Can Company sold $10,000,000 of 2¾ per cent debentures of 1949 privately to a bank. This issue was for working capital and accounted for two-thirds of all the new capital issues in February. The Cleveland-Cliffs Iron Company placed $11,500,000 of first mortgage 3½ per cent bonds of 1951 privately with insurance companies. A refunding issue of $12,000,000 Cincinnati Union Terminal Company bonds of 1969, guaranteed by several railroads, was sold to a syndicate through public bidding. The highest bid was for 3⅜'s at 106¾. After adding a commission of ⅝ of a point, the successful syndicate reoffered the bonds to the public at 107⅜, to yield about 3 per cent to maturity.

Municipal bond awards during February amounted to about $50,000,000. Such awards in January totaled $103,000,000 and included $30,800,000 of New York City securities awarded to a banking syndicate on January 31. A block of $10,000,000 New York City 3 per cent corporate stock, due in 1979, was reoffered at 98 to yield about 3.09 per cent and was promptly sold, and $20,800,000 of 3¼ per cent serial bonds with various maturities between 1940 and 1979 were reoffered at prices to yield from 0.50 to 3.17 per cent. The average maturity of the entire flotation was 24.4 years and the average interest cost to the city was 3.0839 per cent.

Foreign Exchanges

During the month of February, foreign exchange quotations for sterling, the French franc, the Swiss franc, and the Canadian dollar firmed against the dollar, while rates for the guilder and the belga weakened.

The pound sterling rose in this market from $4.67⅞ on January 31 to $4.68¾ at the end of February to record the second successive monthly advance, following six consecutive months during which declines had been registered. Moderate pressure against sterling was exerted in the middle of the month when the Chancellor of the Exchequer announced the British defense estimates for the year 1939-40 and asked for an increase of the Government's borrowing powers for the five years ending March, 1942 from £400,000,000 to £800,000,000, but this pressure was without noticeable effect on the exchange rate as considerable support was afforded the pound by heavy gold shipments to New York undertaken by private arbitrageurs. The large private gold sales in the London market were reported as arising mainly from the maturity of forward contracts in gold, the renewal of which had in the majority of cases been prevented by the rules limiting speculation against sterling which were promulgated during January. These rules also affected the London exchange market by reducing greatly the turnover in foreign exchange dealings.

The French franc was held within a narrow range in terms of sterling during February—close to 177 francs per pound—and as a consequence of the firming of the pound, gained in the New York market from $0.0264⅜ to $0.0265. Forward rates for francs also improved. The French authorities were reported to have made substantial additions to their gold and foreign exchange holdings, as the repatriation of French capital which began about November 1, 1938, continued steadily through the fourth month. The Swiss franc recovered in this market from $0.2258¾ on January 31 to $0.2275 on February 21, the highest level since the end of November, 1938. In London the cross-rate improved from 20.72 Swiss francs per pound to 20.62. Short covering of Swiss franc positions after Chancellor Hitler's speech of January 30 initiated the recovery, which proceeded throughout the remainder of the month.

Marked weakness during February was shown by the Dutch guilder, which declined from $0.5383 on January 31 to $0.5310½ on February 28 to reach its lowest quotation since early October, 1936. Against sterling, the guilder eased from 8.68 guilders per pound to 8.82¼, approaching the level of 8.92-8.96 maintained prior to the Munich crisis of last September. The presence in the Netherlands of a large volume of nervous refugee funds rendered the guilder susceptible to fluctuations in response to every rumor of political disturbance in Europe, and the Dutch authorities in the last two months have experienced a fairly continuous outflow of these refugee funds, along with several transfers abroad of the proceeds of loans sold in Amsterdam. Among the latter was a $4,000,000 issue sold in Amsterdam for the City of Montreal in Canada, the transfer of which, at the end of February, accentuated the weakness of the guilder, and also had the effect of bidding up Canadian exchange from a discount of 9/16 per cent on February 1 to a discount of 5/16 on February 24.

Pressure against the belga developed some time after the resignation of the Spaak cabinet on February 9 and continued through the formation of a new government by Premier Pierlot on February 21 and its subsequent resignation on February 27. Lack of confidence in the stability of the political situation in Belgium appears to have been the main factor inducing the pressure against the belga, but the decline in the guilder also contributed by reviving domestic agitation that the belga be detached from gold and managed in terms of sterling.

Gold Movement

During the month of February gold imports at New York affecting the gold stock amounted to $117,700,000, of which $98,900,000 was received from England, $15,000,000 from Holland, $3,600,000 from Canada, and $200,000 from India. A major portion of the shipments from England consisted of gold previously held in private hands in London which became available for sale in the market following the imposition of semi-official restrictions on forward dealings in gold. On the West Coast receipts of gold totaled $11,100,000, consisting of $5,500,000 from Japan, $3,400,000 from Australia, and $2,200,000 from China. In addition, there was a gain to the gold stock of $25,900,000 through releases of gold from foreign earmarked holdings 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 February by approximately $195,000,000 which compares with a gain of $170,000,000 in January.

Central Bank Rate Changes

The National Bank of Denmark announced a reduction of its discount rate from 4 to 3½ per cent, effective February 23. The higher rate had been in effect since November 19, 1936.

Foreign Trade

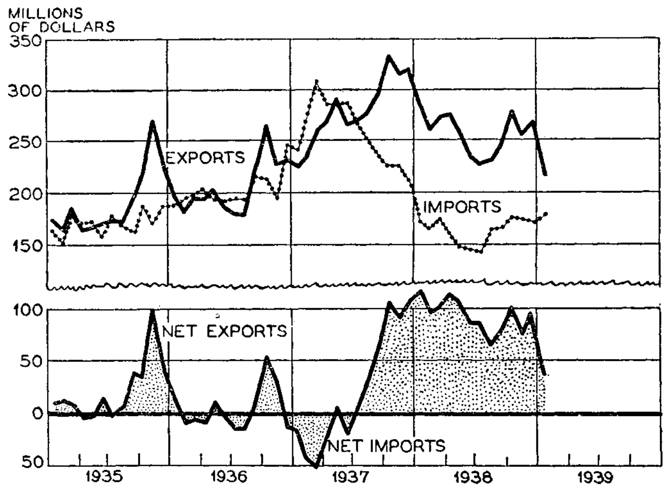
Exports of merchandise from this country during January were valued at $213,000,000, a substantially smaller amount than in the previous month, while imports, valued at $178,000,000, were somewhat larger than in December. The decrease in exports from December to January is only partially accounted for by the usual seasonal decline between these two months, and the reduction of 26 per cent from a year previous was the largest for any month in several years. Aggregate imports, on the other hand, showed a small increase compared with January, 1938.

The January export balance of $35,000,000 represents a material reduction from the heavy excess of exports that had prevailed in each month since the summer of 1937, as the accompanying diagram shows. The excess of exports, however, remained larger than in most months during a period of over two years prior to the middle of 1937, in which moderate recovery in both exports and imports had occurred.

All the major types of exports participated in the general decline in January from a year previous, although exports of crude materials registered the largest decrease, as the following table indicates. On the other hand, all the principal categories of imports except manufactured foodstuffs, chiefly sugar and liquors, showed at least small increases over January, 1938. Compared with January, 1935, however, the crude materials group alone showed a reduction among the exports; exports of crude footstuffs were four times the comparatively small amount at that time, and total exports were 21 per cent larger than four years ago. Meanwhile, total imports in January, 1939 were little different than in January, 1935, as decreases in imports of crude and

	Dollar value (in millions) January, 1939		Percentage change in			
			Exports January, 1939 compared with		Imports January, 1939 compared with	
	Exports*	Imports**	Jan., 1938	Jan., 1935	Jan., 1938	Jan., 1935
Crude materials	36.4	53.9	—46.4	— 34.8	+ 4.1	+25.3
Crude foodstuffs	16.4	26.8	—33.1	+300.0	+27.0	— 2.5
Manufactured foodstuffs	14.6	16.6	— 7.6	+ 19.7	—27.8	—56.5
Semimanufactures	35.5	37.2	—19.3	+ 30.5	+13.8	+25.3
Finished manufactures	107.4	34.9	—19.6	+ 44.5	+ 0.9	+15.9
Totals	210.3	169.4	—26.4	+ 21.1	+ 3.7	+ 0.5

*Domestic exports only.
**Imports for consumption only.



Merchandise Exports and Imports of the United States, Indicating Size of Monthly Export or Import Balance (Department of Commerce data)

manufactured foodstuffs nearly offset increases in other types of imports.

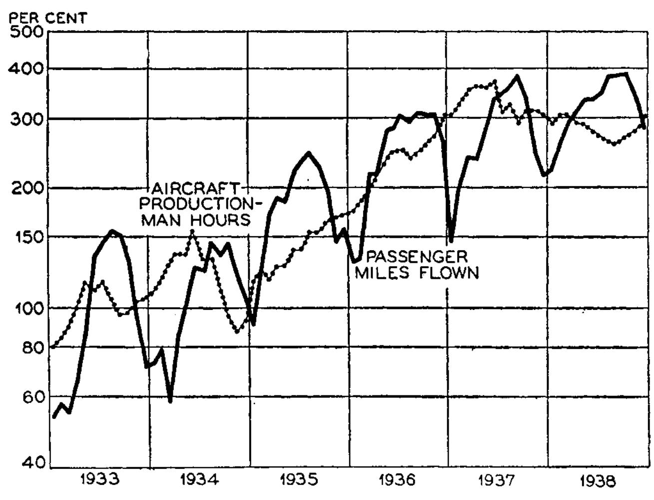
The drop in exports from a year ago reflected decreases in a wide variety of individual commodities. The large reduction in crude material exports was due chiefly to heavy declines in shipments of raw cotton, unmanufactured tobacco, and crude petroleum. Exports of raw cotton were less than one half as large in quantity and value as in January, 1938; and the quantity exported was the smallest January movement of cotton abroad in more than 30 years. While shipments of cotton to all of the leading importing countries were reduced, exports to the United Kingdom, the largest taker of American cotton, showed a decline of about 80 per cent from a year ago, and exports to France were decreased in almost the same proportion. Exports of aircraft and a few other manufactured products, however, showed increases over January, 1938. Among the individual imports, the largest relative increases compared with a year ago occurred in receipts of coffee, raw silk, manufactured and unmanufactured wool, burlap, nickel, and diamonds.

Production and Trade

When seasonal factors are considered, available weekly data indicate that there was some further decline in business activity in February. Steel mill operations appear to have averaged slightly higher than in January, but there is ordinarily a marked rise between these two months. Automobile assemblies, which had been running at a high level in relationship to indicated sales, as is usual at this season, were somewhat reduced, particularly in the latter part of the month. Cotton mill activity is reported to have shown little change from the comparatively high level of recent months; incoming business was in restricted volume during most of the month, though there was a recovery in the last week. In the first three weeks of the month, shipments of freight by railway were lower than in January, whereas ordinarily some advance occurs, although in the same period generation of electric power declined only about as usual, and bituminous coal production continued at approximately the January rate. Department store sales in this District during the three weeks ended February 18 showed a seasonal increase over January sales, but were 7 per cent lower than in the corresponding 1938 period.

As the result of somewhat greater than usual contraction in trade, and failure of industrial production to gain as in other years, the general level of production and trade, on a seasonally adjusted basis, declined moderately between December and January. The average daily rate of steel ingot production was little changed in January, whereas pronounced increases have occurred in most other years, and while cotton textile mills were somewhat more active than in December, the increase was much smaller than usual. A decline in automobile assemblies was mainly of a seasonal character, and shoe production appears to have shown about the usual increase, but bituminous coal production increased somewhat less than usual, cement output declined more than in most other years, and copper production was lower than in December. The dollar value of machine tool orders, however, advanced further in January to the highest level since October, 1937.

The past nine years have not in general been especially favorable to the development of new industries. Nevertheless, there is a fair sized list of industries which, despite depressed business conditions, have grown not only relative to industry as a whole, but also in actual volume. Radio broadcasting, rayon manufacture, electrical refrigerator production, and aviation are important members of this group. The development of aviation has been particularly rapid. The accompanying diagram indicates two measures of this development—passenger miles flown by domestic airlines, and man-hours of employment in aircraft factories. The diagram is of a type designed to show primarily rates of growth, rather than actual amounts. The mileage flown by airplanes is subject to a pronounced seasonal movement, associated with weather conditions, but after allowance for this factor it is apparent that passenger transportation by air has shown a strong and persistent rising tendency. The total of passenger miles flown has attained new high records year after year and the average rate of rise since 1933 has been over 25 per cent a year. Employment in aircraft factories, while much less subject to seasonal fluctuations, has grown more irregularly than the use of airplanes. There was a substantial downturn in the latter half of 1934, but principally as a result of a steep and steady rise from the end of 1934 through the first half of 1937, man-hours of employment more than tripled between 1933 and 1937. More recently, there was a decline from June, 1937 up to August, 1938, which was followed by a moderate recovery in the final quarter of last year.



Passenger Miles Flown on Domestic Airlines and Man-hours of Employment in Aircraft Factories (1933 average = 100 per cent; based on data from Civil Aeronautics Authority and Bureau of Labor Statistics; ratio scale used to indicate rates of growth)

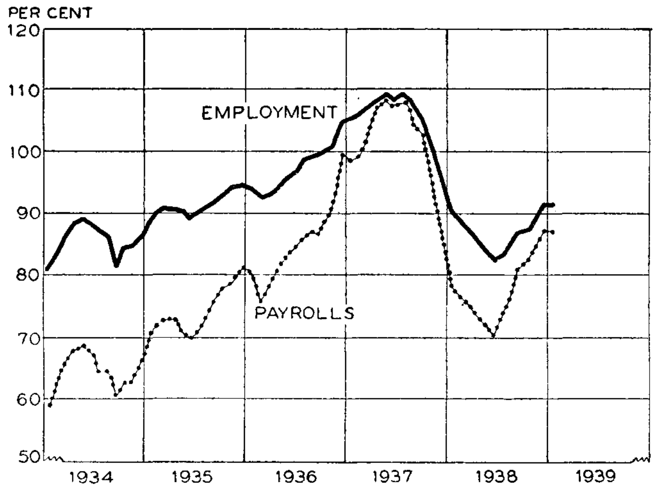
(Adjusted for seasonal variations, for estimated long term trend, and where necessary for price changes)

	1938			1939
	Jan.	Nov.	Dec.	Jan.
Industrial Production				
Steel	38	84*r*	80	69
Copper	77	92	95	86*p*
Passenger cars *r*	48	84	83	84
Motor trucks *r*	78	82	87	82
Bituminous coal	67	80	79	77*p*
Crude petroleum	96	85	88	87*p*
Electric power	85	90	92*p*	91*p*
Cement	50	67	71	57
Cotton consumption	71	96	101*r*	94
Wool consumption	49	110	134	120*p*
Shoes	95	113	126*p*	124*p*
Meat packing	89	91	87	84
Tobacco products	87	95	95	87
Machine tool orders*	115	103	127	142
Employment				
Employment, manufacturing, U. S. *r*	91	91	93	93*p*
Employee hours, manufacturing, U. S.	66	74	75	74*p*
Construction				
Residential building contracts	21	42	40	47
Nonresidential building and engineering contracts	61*r*	79	112	69
Primary Distribution				
Car loadings, merchandise and misc.	74	79	81	79
Car loadings, other	72	76	79	75
Exports	91	75	80	69*p*
Imports	64	74	73	71*p*
Distribution to Consumer				
Department store sales, U. S.	85*r*	87	87	86
Department store sales, 2nd District	81	79	81	76
Chain grocery sales	103	111	114	111*p*
Other chain store sales	93	93	100	97
Mail order house sales	87	90	95	91
New passenger car registrations *r*	60	81	77	72*p*
Velocity of Deposits†				
Velocity of demand deposits, outside New York City (1919-25 average = 100 per cent)	65	65	66	61
Velocity of demand deposits, New York City (1919-25 average = 100 per cent)	42	36	44	36
Prices and Wages†				
General price level (1913 average = 100 per cent)	155	154	155	155*p*
Cost of living (1913 average = 100 per cent)	150	147	148	147
Composite index of wages (1926 average = 100 per cent)	111	110	111	111*p*

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

Employment and Payrolls

The number of persons employed in nonagricultural occupations in the United States, as reported by the United States Department of Labor, was approximately 880,000 lower in January than in December, but was



Indexes of Employment and Payrolls in United States Factories, Adjusted for Seasonal Variation (1923-25 average = 100 per cent; based on Bureau of Labor Statistics data)

only about 100,000 less than a year ago, the most favorable year-to-year comparison in more than a year. Most of the reduction from December to January occurred in retail trade, where more than a half a million workers were laid off with the close of the holiday trade.

There was also a reduction in factory employment, of approximately the usual seasonal proportions. The largest absolute decreases occurred in such industries as those manufacturing nonferrous metals, lumber, cement, food products and tobacco, and paper and printing, but these decreases were mostly of a seasonal character, and in some cases were less than usual. The largest declines, after allowance for seasonal variations, were shown in the automobile and rubber products industries; adjusted indexes of employment for each of these groups decreased about 2 per cent. Factory employment in January was about 2 per cent above the level of January, 1938. Factory payrolls showed a seasonal decline in January of about 4 per cent from December, but were 11 per cent higher than a year previous.

In New York State the decline in manufacturing employment and payrolls, as reported by the State Department of Labor, was somewhat less than the average decrease from December to January in past years. Seasonal reductions in working forces were fairly general, however, curtailment being most marked at plants engaged in the manufacture of cotton goods. As compared with January, 1938 employment was 4 per cent higher and payrolls were 8 per cent higher.

Building

Construction contracts were awarded during January in the 37 States included in the F. W. Dodge Corporation survey at a daily rate 30 per cent below the high level reached in the previous month, when contracts for a large number of Public Works Administration projects were rushed through before the close of the year. Commercial building, however, increased substantially between December and January. Compared with January, 1938, the principal classes of construction, excepting public utilities, showed material advances; the largest gain occurred in residential building, which was considerably more than doubled, as the following table indicates.

Percentage Change in Average Daily Contracts

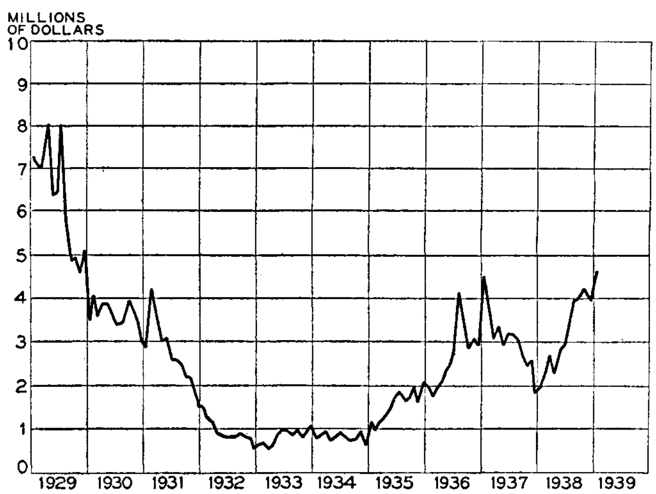
	37 States January, 1939 compared with		N.Y. and Northern N.J. January, 1939 compared with	
	Dec., 1938	Jan., 1938	Dec., 1938	Jan., 1938
Building				
Residential	— 5	+131	+12	+126
Commercial and industrial	+26	+ 16	+92	— 8
Public purpose*	—45	+ 78	+33	+343
All building	—23	+ 84	+27	+138
Engineering				
Public works	—46	+ 18	—32	— 36
Public utilities	—28	— 37	+10	— 61
All engineering	—41	— 9	—14	— 53
All construction	—30	+ 36	+ 9	— 2

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

The accompanying diagram shows the rising tendency which has marked residential building over the past twelve months. This type of building activity has undoubtedly been stimulated by the more liberal mortgage terms established early last year by the Federal Housing Administration, and the volume of residential contracts placed in January, 1939, after account is taken of the usual sharp seasonal contraction at this time of the year, reached the highest level since December, 1929.

In contrast with the situation for the country generally, the January daily rate of total construction awards in the New York and Northern New Jersey area was 9 per cent above the December average. The increases over December in contracts for the construction of buildings were only partially offset by a decrease of 14 per cent in contracts for engineering projects. In comparison with January, 1938, however, exceptional increases in residential and public purpose building were slightly more than counterbalanced by a decrease in heavy engineering awards from the relatively large total for a year ago.

During the first half of February, total construction contracts in 37 States declined 15 per cent from the January average; the largest decline, of a contraseasonal



Daily Average Value of Residential Building Contracts Awarded, Adjusted for Seasonal Variation (Based on F. W. Dodge Corporation data for 37 States)

nature, occurred in nonresidential building. Compared with the first half of February, 1938, however, construction contracts as a whole were 63 per cent higher, owing principally to increases in residential building and in public works and utility contracts, both of which were nearly double the amounts in the corresponding period of a year ago.

Commodity Prices

With the exception of a few commodities, which appear to have been influenced by technical or special factors, price movements of sensitive commodities during February again were confined to only minor changes, and the general level, as measured by Moody's Investors Service index of 15 items, deviated only slightly from the level which has persisted since early last August.

One outstanding feature in the commodity markets during the past month was a further large advance in raw silk prices, which have been affected by the apparent scarcity of raw silk supplies for the balance of the current silk year. The spot quotation for raw silk in New York increased 26 cents further during February to \$2.21½ a pound, the highest level since November, 1935. The most pronounced advance occurred on February 23, accompanying a rise in the Japanese markets, which was attributed in some market circles to the desire in Japan to substitute silk for cotton and wool, wherever possible, in order to conserve the foreign exchange required for imports of the latter commodities. Silk prices in Japan have now reached levels permitting the Japanese Raw Silk Stabilization Committee to sell silk from custody stocks to curb the advance, and about 7,790 bales were reported to have been released from the new Government stocks up to February 25, but these sales apparently were readily absorbed and had no materially depressing effect on prices.

Increases occurred also in crude rubber prices during the past month and the spot quotation ended February at 16¾ cents a pound, or 15/16 of a cent above a month ago. Most of this advance occurred immediately after the announcement on February 14 by the International Rubber Regulation Committee that the rubber export quota for the second quarter would remain unchanged at 50 per cent of basic quotas. Some increase in the export quota had been generally expected in trade circles.

Among other important basic commodities, a moderate increase occurred in the average price of steers during the past month, reflecting primarily a seasonal reduction in livestock marketings. The price of hides, on the other hand, receded 1 cent further to 10 cents a pound, the lowest level since last July, and some additional decline also occurred in corn prices, principally as a result of a continued absence of any important export demand. Little net change was shown in wheat prices and cotton tended somewhat higher during February, although exports of these commodities also were comparatively small. In the metals group, scrap steel prices advanced moderately, the quotation at Chicago rising 50 cents to \$14.25 a ton. The price of tin declined 40 points to 46 cents a pound, and a reduction of 10 points brought the price of lead to 4¾ cents a pound, while the spot quotations for copper and zinc held steady during the past month.

Department Store Trade

During the three weeks ended February 18, sales of the reporting department stores in this District showed approximately the usual seasonal increase over January, but were 7 per cent below the corresponding period of 1938.

Total January sales of the reporting department stores in this District were about 8½ per cent lower than last year, a larger year-to-year decline than in November and December. In a majority of the localities, department store sales recorded less favorable comparisons than in the previous two months, and apparel store sales showed a decline of 10½ per cent, the largest reduction from a year ago since last October.

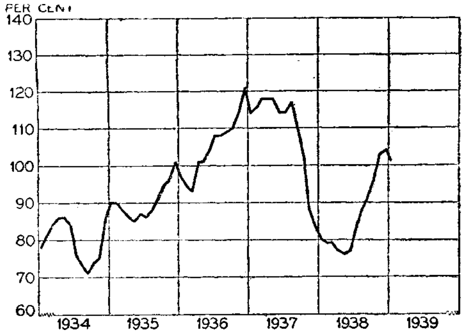
The retail value of stocks of merchandise on hand in the department stores continued to show a sizable year-to-year reduction, amounting in January to approximately 7½ per cent, but in the case of the apparel stores stocks showed a reduction from a year ago of less than 1 per cent. Collections of accounts outstanding continued slower than a year ago both in the department and the apparel stores.

Locality	Percentage change January, 1939 compared with January, 1938		Per cent of accounts outstanding December 31 collected in January	
	Net sales	Stock on hand end of month	1938	1939
New York and Brooklyn	− 9.4	− 8.4	51.3	50.5
Buffalo	− 7.1	− 4.4	40.8	39.3
Rochester	− 9.8	−10.3	58.4	55.8
Syracuse	− 7.0	− 4.3	38.7	37.2
Northern New Jersey	− 4.5	− 7.1	43.3	41.4
Bridgeport	− 1.4	+ 5.0	38.2	40.9
Elsewhere	− 6.5	− 5.4	36.1	35.9
Northern New York State	+ 1.3	......	....	....
Southern New York State	− 7.2	......	....	....
Central New York State	− 4.5	......	....	....
Hudson River Valley District	− 2.7	......	....	....
Westchester and Stamford	− 1.2	......	....	....
Niagara Falls	−21.7	......	....	....
All department stores	− 8.4	− 7.7	47.9	46.7
Apparel stores	−10.4	− 0.7	50.8	50.3

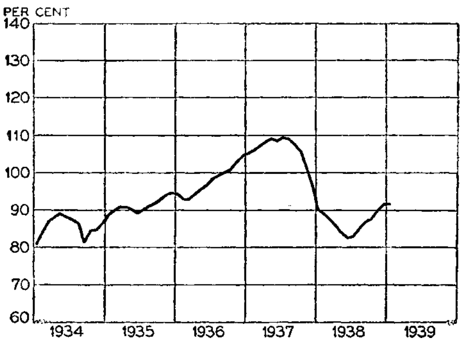
Department Store Sales and Stocks, Second Federal Reserve District
(1923-25 average = 100)

	1938			1939
	Jan.	Nov.	Dec.	Jan.
Sales, unadjusted	74	106	164	68
Sales, seasonally adjusted	94	89	92	86
Stocks, unadjusted	73r	92	74	68
Stocks, seasonally adjusted	81r	78	75	75

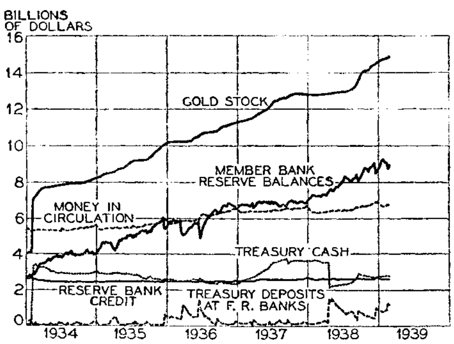
r Revised.



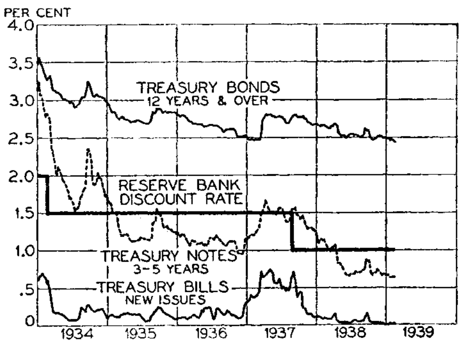
Index of Physical Volume of Industrial Production, Adjusted for Seasonal Variation (1923-25 average = 100 per cent)



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



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



Money Rates in New York City

Business Conditions in the United States

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

INDUSTRIAL production increased less than seasonally in January and the first three weeks of February, following a rapid advance in the latter half of 1938. Wholesale commodity prices continued to show little change.

Production

In January volume of industrial production, as measured by the Board's seasonally adjusted index, was at 101 per cent of the 1923-1925 average as compared with 104 in December. At steel mills, where activity usually increases considerably at this season, output in January and the first three weeks of February was at about the same rate as in December. Automobile production declined seasonally in the first two months of the year as retail sales showed about the usual decrease and dealers' stocks reached adequate levels. Output of cement declined in January, and there was also some reduction in output of lumber and plate glass. In the nondurable goods industries, where production had been at a high level in December, activity increased less than seasonally. Increases at cotton, silk, and tobacco factories were smaller than usual and at woolen mills there was a decline. Shoe production and sugar refining continued in substantial volume, and activity at meat packing establishments showed little change, following a decline in December. Mineral production increased somewhat in January, reflecting an increase in output of crude petroleum.

Value of construction contracts awarded declined in January, according to F. W. Dodge Corporation figures, owing principally to a reduction in awards for publicly financed projects, which had been in large volume in December. Contracts for privately financed residential building continued at the recent advanced level, while awards for private nonresidential building remained in small volume.

Employment

Factory employment and payrolls showed the usual decline between the middle of December and the middle of January. In most individual industries, as well as in the total, changes in the number of employees were of approximately seasonal proportions. In trade, employment declined somewhat more than is usual after Christmas.

Distribution

Sales at department and variety stores and by mail order houses showed the usual sharp seasonal decline from December to January. In the first two weeks of February department store sales continued at the January level.

Volume of freight car loadings in January and the first half of February was at about the same rate as in December.

Commodity Prices

Wholesale commodity prices generally continued to show little change in January and the first three weeks of February. Grain prices declined somewhat, following a rise in December, while prices of hogs increased seasonally. Changes in prices of industrial materials were small.

Bank Credit

Excess reserves of member banks, which reached a record high level of $3,600,000,000 on January 25, declined somewhat in February. This decline resulted chiefly from a temporary increase in Treasury balances with the Reserve Banks representing cash receipts from the sale of the new United States Housing Authority and Reconstruction Finance Corporation notes. Purchases of these notes were also responsible for an increase in total loans and investments of reporting member banks in 101 leading cities, following a decline during January.

Money Rates

Average yields on United States Government securities declined further during the first three weeks of February to about the lowest levels ever reached. New issues of 91 day Treasury bills, after selling at par or at a slight premium in late December and early January, were again on a slight discount basis during February. Other open market rates continued unchanged.