

MONTHLY REVIEW

of Credit and Business Conditions

Second Federal Reserve District

Federal Reserve Bank, New York

April 1, 1939

Money Market in March

The security markets, which during the past few years have become the most important element in the New York money market, reflected an abrupt reversal in sentiment during March. Rising optimism was indicated during the early part of the month by a strong advance in prices of securities of all types, from Government bonds down to speculative corporate bonds and stocks, but this optimism was suddenly chilled around the middle of the month by developments in central Europe. A general decline in security prices followed, and, except in Government bonds which showed exceptional resistance to adverse influences, only partial recoveries in bond prices occurred by the end of the month; stock prices declined to new lows for the year.

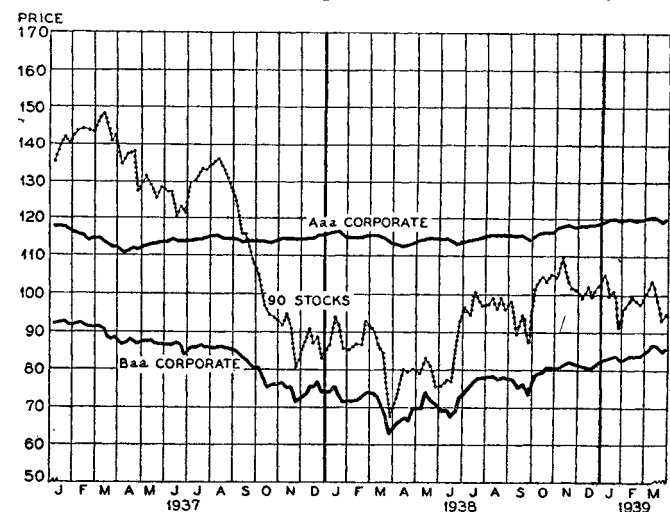
A similar change of sentiment was reflected also in the foreign exchange market and in gold movements. In the early part of March the foreign exchange market was quiet, the principal European exchanges moderately firm, and the flow of gold to the United States was at a less rapid pace than in previous weeks. The renewed tension in Europe which was induced by the dismemberment of Czecho-Slovakia and by subsequent developments in central Europe, was reflected in a renewed flow of capital to the United States, with resulting pressure on European exchanges, and an accelerated gold flow to this country.

In the early part of March, stock prices rose strongly, lower grade bonds reached the highest levels since May, 1937, and with the prospect of continued large supplies of funds available for investment, prices of Treasury bonds and the highest grade corporation bonds advanced to new high levels. Around the middle of the month, however, there was evidence of a renewed attitude of doubt and caution, apparently induced by fears concerning the outcome of events in Europe, augmented by lessened optimism concerning domestic developments. Stock prices fell rapidly, industrial stocks to levels nearly as low as those reached near the end of January, and, with that exception, the lowest since the European crisis of last September. A renewed decline at the month end carried industrial stocks to new lows for the year. Bond prices, even for the lower grade issues, showed comparatively small losses, however, and remained substantially above the levels reached in September.

An important factor in the relative strength of bond

prices undoubtedly was the huge volume of idle money available for investment, and the prospect for further additions to excess bank reserves, as a result of Treasury purchases of the large amounts of incoming gold and other Treasury expenditures from balances held with the Reserve Banks. This prospect was enhanced when the Treasury announced that it would limit its financing on March 15 to the refunding of \$1,294,000,000 of Treasury notes that were to have matured on June 15, 1939. This announcement directed attention again to the strong cash position of the Treasury, despite the high level of Government expenditures. Large Treasury balances were created during the past year by the release of gold from the inactive account ("sterilized" gold) and by Treasury borrowing in advance of requirements, and these balances have been supplemented since the beginning of 1939 by substantial sales of United States savings bonds and of the securities of Government agencies, the proceeds of which were deposited in Treasury accounts. On March 1 the Treasury had more than \$1,150,000,000 on deposit in Federal Reserve Banks, about \$900,000,000 in other banks designated as depositories for Government funds, and approximately \$550,000,000 of free gold in the Treasury, a total of about \$2,600,000,000.

The decision of the Treasury to omit cash offering of securities on March 15, gave assurance not only that



Movements of Stock and Bond Prices (Standard Statistics Company index of 90 stocks and Moody's Investors Service average prices of Aaa and Baa corporate bonds)

there would be no increase at this time in the supply of Government securities in the market, but also that the volume of bank reserves would be little affected by Treasury transactions on the March 15 tax date, and would probably be increased still further during coming months by disbursements of some of the funds now held by the Treasury.

Apparently in response to this prospect, together with a need for additional earnings due to the low rates of income now obtained on earning assets and the unfavorable prospect for a material increase in the volume of loans in the near future, the large New York City banks embarked upon unusually heavy buying of Treasury bonds in the market during the past month. Changes in holdings of direct obligations of the Government by the weekly reporting New York City banks between March 1 and March 29 are shown in the following table.

(In millions of dollars)

	Mar. 1, 1939	Mar. 29, 1939	Change
Treasury bills	108	68	-40
Treasury notes	889	742	-147
Treasury bonds	1,616	1,981	+365
Total	2,613	2,791	+178

As these figures show, there was a shift from Treasury notes to Treasury bonds, incident to the refunding operation of March 15, but quite aside from this shift, there was a substantial increase in holdings of Treasury bonds. Reports from member banks in 100 other cities throughout the country showed an increase in holdings of Treasury bonds during March which was less than the reduction in their holdings of Treasury notes. The net reduction in total Government security holdings in these cities was caused by sales of notes maturing on June 15, 1939 to Government security dealers in advance of the exchange of the notes for new securities on March 15.

The effect of Treasury transactions on the reserve position of member banks in the March tax period was unusually small, not only because no Government securities were sold to raise new money, but also because income tax collections were considerably smaller than a year previous, reflecting the reduction in business volume and the much greater reduction in business profits in 1938. Income tax collections in March, 1939 are estimated at approximately \$500,000,000 as compared with about \$725,000,000 in March, 1938. In the week ended March 22 excess reserves of all member banks declined only \$80,000,000, and for New York City banks showed a small increase. In the following week the rise in excess reserves was resumed, and for the six-week period ended March 29 there was a net increase of \$350,000,000, as income tax collections and other Government revenue receipts were more than offset by Government disbursements, together with the accelerated inflow of funds from abroad.

MEMBER BANK CREDIT

Total loans and investments of weekly reporting member banks continued to increase in March, chiefly as a result of the expansion of Government security holdings

Money Rates in New York

	Mar. 31, 1938	Feb. 28, 1939	Mar. 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..	3/4-1	1/2-3/4	1/2-3/4
Bills—90 day unindorsed	3/8	3/8	3/8
Customers' rate on commercial loans (Average rate of leading banks at middle of month)	1.58	1.63	1.63
Average yield on Treasury notes (3-5 years)	1.04	0.57	†0.48
Average rate on Treasury bonds (more than 12 years to maturity or call date)	2.69	2.39	2.29
Average rate on latest Treasury bill sale 90-91 day issue	0.087	0.004	‡
Federal Reserve Bank of New York re- discount rate	1	1	1
Federal Reserve Bank of New York buying rate for 90 day indorsed bills.	1/2	1/2	1/2

* Nominal.

† Change of +0.05 in average yield due to dropping of 1 1/4 per cent Treasury notes of March 15, 1942 from the average as the issue matures within 3 years.

‡ Average price slightly below par.

of the New York City banks, previously commented upon. Commercial loans showed some further increase of a seasonal character, but the increase from the low point reached early in February was considerably less than in a number of previous years. Loans to security brokers and dealers increased substantially in the first week of March, presumably reflecting the financing of Government security dealers' transactions in connection with the Government refunding operation, but these temporary borrowings were repaid in the two following weeks.

Since the low point for 1938 was reached in the second week of July, the total loans and investments of all weekly reporting member banks have increased by nearly \$1,300,000,000. There has been no net increase in the total volume of loans during this period, all of the expansion being in investments — approximately three-fourths of it in holdings of direct obligations of the Government and of Government guaranteed securities, and one-fourth in other investments, chiefly in State and municipal securities and obligations of Government agencies whose securities are not fully guaranteed by the Government. Security loans have increased moderately, but commercial loans, despite the recent gradual increase, remain lower than at the middle of last year, and other loans also have shown some shrinkage in volume.

GOVERNMENT SECURITIES

On March 2, the Treasury announced that in exchange for Treasury notes maturing June 15, 1939, it would issue on March 15 additional amounts of three issues of outstanding securities—namely, the 1 1/8 per cent notes due December, 1943, the 2 1/2 per cent bonds of 1950-52, and the 2 3/4 per cent bonds of 1960-65. On March 6 the Treasury announced the prices at which the exchanges would be made: 101 for the notes, 102 1/2 for the shorter term bonds, and 102 3/8 for the long term bonds. Virtually all of the June notes were exchanged for the new notes or bonds, a large proportion for the long term bonds, for which a strong preference was indicated.

Throughout the first half of March, the market prices of outstanding Treasury bonds continued to advance, following a strong rise at the end of February when it was first announced that the March 15 Treasury financing program would consist entirely of an exchange opera-

tion. During this period the average price of Treasury bonds of more than 12 year term to call date or maturity rose approximately $\frac{7}{8}$ of a point to a new high level. The unsettlement in other security markets around the middle of the month arising from the European situation spread to the Government security market for a few days, and between March 14 and 18 the average price of Treasury bonds over 12 year term declined $\frac{1}{2}$ point. At these levels, however, the active demand for Treasury bonds on the part of commercial and savings banks and insurance companies again made itself felt and for the remainder of the month the movement of Treasury bond prices was toward higher levels. Not only was the mid-month decline canceled, but the rise was sufficient to carry the average price of Treasury bonds to a new high level on March 30. For the month as a whole, the average yield on Treasury bonds of more than 12 year term declined 0.10 per cent to 2.29 per cent.

Interest in Treasury notes tended as the month progressed to be diverted to other sections of the Government security market because of the relatively restricted supply and because many of the outstanding note issues were selling at a premium above a no-yield basis. For 3 to 5 year maturities, the average yield declined further to approximately $\frac{1}{2}$ of 1 per cent near the end of March.

Treasury bill financing during March included the sale of five weekly issues of 91 day bills, each in the approximate amount of \$100,000,000, to replace similar maturities. There have been demands for Treasury bills for a number of special purposes during the past month, with the consequence that the issues were sold at prices ranging from slightly below par to slightly above par. In all cases the average price realized was only slightly below par, and consequently the yield on these issues was exceedingly small.

BILLS AND COMMERCIAL PAPER

Trading in bankers acceptances remained inactive during March, owing, as in previous months, to the meager amounts of acceptances released by accepting banks and bankers for distribution in the open market. Dealers' bid and offered quotations held at previously reported levels. In February, as is usually the case, the volume of bankers acceptances outstanding declined somewhat, owing chiefly to a contraction in the volume of domestic warehouse credits. As compared with a year ago February outstandings were down \$59,000,000, reflecting primarily decreases in domestic warehouse credits and export bills.

(Millions of dollars)

Type of acceptance	Feb. 28, 1938	Jan. 31, 1939	Feb. 28, 1939
Import.....	96	88	87
Export.....	78	57	57
Domestic shipment.....	8	11	10
Domestic warehouse credit.....	62	42	38
Dollar exchange.....	2	2	2
Based on goods stored in or shipped between foreign countries.....	61	55	54
Total.....	307	255	248

The commercial paper market likewise continued dull in March. Brokers' newly acquired notes remained in small volume as contrasted with a continued broad

demand. Rates again were reported to be at a range of $\frac{1}{2}$ - $\frac{5}{8}$ per cent for average grade prime four to six months' material. At the end of February paper outstanding through commercial paper houses amounted to \$195,300,000, or approximately the same figure as at the end of January. The February, 1939 outstandings, however, were 33 per cent smaller than a year ago.

Security Markets

During the first ten days of March some further recovery in stock prices occurred, although the general average of prices remained about 5 per cent below the early November, 1938, high. In the ensuing part of the month, however, the disturbing events in Europe were accompanied by sizable declines in stock prices in New York, as well as in security markets abroad. Demand for liquidity on the part of foreigners appears to have been a factor in the decline in stock prices in this market and in increased turnover on the Stock Exchange, which on several days rose to a volume of between 1 and $1\frac{1}{2}$ million shares. Between March 10 and March 22, the general average of stock prices declined about 10 per cent, but remained slightly above the low which was reached toward the end of January when apprehension over the European situation was also more acute and domestic business activity was showing some signs of hesitancy. After March 22, stock prices fluctuated irregularly at levels only slightly above the month's lows in quiet trading until the end of the month when prices dipped to a new low for the year.

Domestic corporation bond prices were also affected by the events abroad, and during the middle part of the month generally tended lower. The highest grade issues, those rated Aaa by Moody's Investors Service, temporarily eased about $1\frac{1}{4}$ points on the average, and medium grade issues declined about $1\frac{7}{8}$ points. Both classes of bonds, however, remained above the levels reached on the dip toward the end of January—by a considerable amount in the case of Baa bonds—and some recovery occurred after March 22. Average prices of Aaa bonds near the end of March were about one point below the recent high levels and Baa bonds were about $1\frac{1}{2}$ points below. Aside from the large declines which occurred in prices of Czecho-Slovakian dollar bonds during the past month, other European issues generally showed moderate to sizable declines. South American bonds, on the other hand, were firmer during March.

New Financing

Corporate security offerings during March for the purpose of raising funds to finance new plant, equipment, and working capital totaled about \$20,000,000. Such issues were about \$10,000,000 in January, and \$15,000,000 in February. Thus for the third month in succession new capital issues were far below the monthly average of about \$70,000,000 floated during 1938. The largest amounts of new capital obtained through security issues in March were for the National Distillers Products Corporation and the Lockheed Aircraft Corporation, the latter by an issue of common stock.

Issues of \$65,000,000 for refunding purposes brought the month's corporate flotations total to about

\$85,000,000. Classed among the refunding issues were \$27,000,000 of railroad obligations sold to investment bankers by the Reconstruction Finance Corporation. Refunding operations were also carried out by the National Distillers Products Corporation, the Northern States Power Company, and the Community Public Service Company.

The few corporate offerings that were made during March were well received, despite the fact that several were not of the highest grade. Interest costs to borrowers continued at low levels.

Issues now in registration with the Securities and Exchange Commission indicate that a considerable increase in flotations is in prospect for April. Large issues are expected to be offered both for new capital and for refunding purposes, and the total is likely to equal the average of 1938 for the first time this year.

Awards of new municipal bond issues in March were also in small volume, at about \$30,000,000. In addition, offering was made of \$73,444,000 serial bonds of the Metropolitan Water District of Southern California. Banks and investment dealers purchased these bonds from the Reconstruction Finance Corporation and reoffered them at prices to yield from 2.70 to 3.60 per cent depending upon maturity. Yields on outstanding municipal bonds were reported to be the lowest in many years.

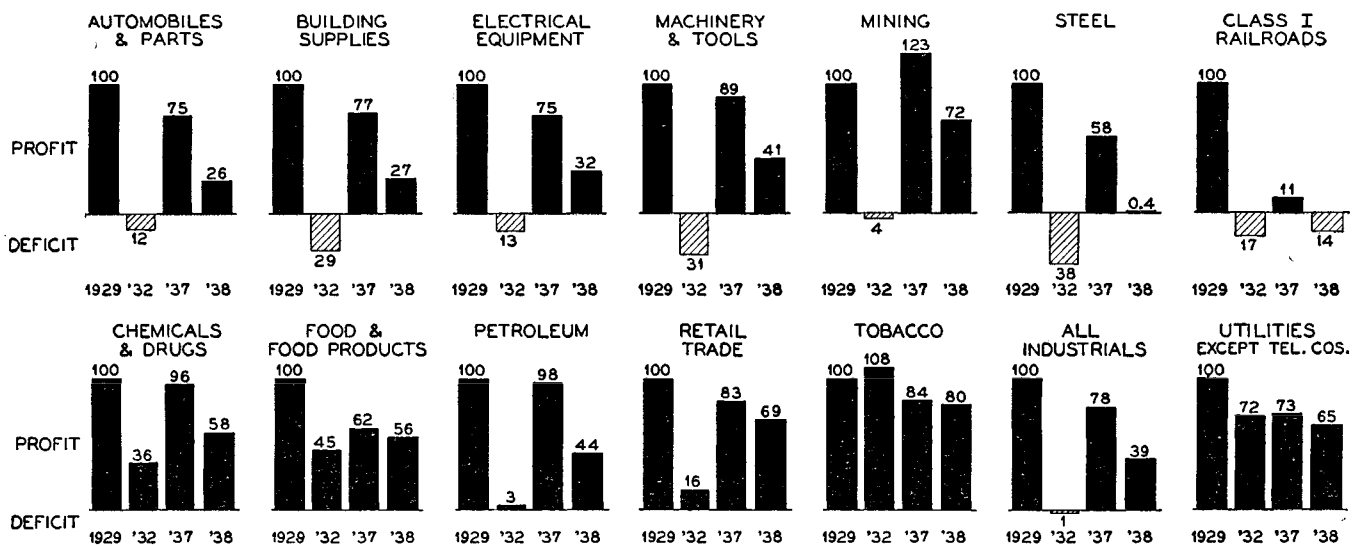
Business Profits

In the fourth quarter of 1938 the attainment of large scale output by the automobile factories, and further increases in general business activity, resulted in the sharpest rise in quarterly net profits since 1928. Recession in general business activity in the first half of 1938 had resulted in a low level of business profits during that period; and in the third quarter of the year, despite some recovery in business volumes, total net profits of industrial companies remained at a low level, a situation attributable in part to the fact that the third quarter marks the seasonal low point of automobile production. For the fourth quarter, net profits of a group of 333

industrial and mercantile companies, whose figures are available on a quarterly basis, were 7½ per cent larger than in the corresponding period of 1937, in contrast with the large declines which occurred earlier in 1938.

The increase in net profits in the final three months of 1938 occurred chiefly in companies producing durable goods. Net profits of automobile companies, in the aggregate, reached a total for the final quarter which was approximately four times the low net profits of the first nine months. Railroad equipment companies and steel companies had fourth quarter profits which somewhat exceeded the aggregate deficits sustained in the initial nine months, and permitted these companies to show small net profits for the year as a whole. Net profits of electrical equipment and chemical companies also increased substantially in the fourth quarter of 1938.

Total net profits of 831 industrial and mercantile companies for the whole year 1938, however, were only about one half as large as in 1937, as the accompanying diagram indicates. Of the individual companies tabulated, 26 per cent reported net losses in 1938, as against only 10 per cent in 1937. In the aggregate, profits of companies producing durable goods showed a decline from 1937 to 1938 which was approximately twice as large as the aggregate decline reported by groups of companies in the consumers' nondurable goods and service lines. Net profits of companies producing steel, railroad equipment, furniture and floor coverings, brick and clay products, heating and plumbing equipment, and automobile parts and accessories, amounted to only a small fraction of the 1937 profits. Profits of the aviation company group, however, more than doubled between 1937 and 1938 to reach a new high level. Among the food and food products group, profits of companies manufacturing bakery products, beverages, and miscellaneous food products increased over the previous year's level, while profits of meat packing companies, largely as a result of lower retail prices received for meat products, showed a marked decline. In the retail trade group, food stores increased aggregate net profits while other retail stores showed declines of varying degree.



Annual Net Profits or Deficits of 831 Industrial and Mercantile Concerns, Class I Railroads, and 82 Public Utility Companies Other Than Telephone Companies During 1929, 1932, 1937, and 1938 (1929 = 100 per cent)

Net income of Class I railroads recovered further in the fourth quarter of 1938 to \$54,000,000, but because of the large deficit which accumulated in the first six months of 1938, there was a net deficit of \$123,000,000 for the year as a whole, which compares with a net profit of \$99,000,000 in 1937 and of \$166,000,000 in 1936. Net operating income of 91 large telephone companies declined 7.5 per cent from 1937 to 1938, and the net income of 82 other public utilities declined 10.7 per cent.

(Net profits in millions of dollars)

Corporation Group	No. of Cos.	1929	1932	1934	1937	1938
Advertising, printing and publishing.....	16	18.8	0.7	5.2	10.4	7.4
Agricultural equipment.....	9	81.9	-31.3	-5.9	74.3	38.0
Automobiles.....	13	327.2	-28.7	89.9	254.8	104.1
Automobile parts and accessories (excl. tires).....	48	93.0	-22.0	17.5	58.3	5.6
Aviation.....	10	4.1	-1.3	0.3	5.8	12.2
Building materials and supplies:						
Brick and clay products.....	9	13.9	-4.7	1.0	5.1	0.9
Cement.....	9	11.8	-6.1	1.2	7.0	4.2
Heating and plumbing.....	17	42.6	-19.4	4.9	27.0	2.2
Paints and varnishes.....	6	16.2	2.9	6.7	9.2	4.7
Other building materials.....	25	55.8	-12.9	13.3	58.9	25.8
Chemicals and drugs.....	43	197.2	71.7	115.5	188.7	114.2
Containers (metal and glass).....	6	41.6	21.6	41.5	41.1	23.3
Electrical equipment.....	35	171.3	-22.3	20.8	129.1	53.9
Food and food products:						
Bakery products.....	10	48.4	25.9	18.3	20.9	22.9
Beverages.....	8	19.7	12.8	27.6	36.2	37.0
Confectionery.....	12	28.0	14.4	17.2	19.0	17.2
Meat packing.....	13	38.7	-3.1	29.0	23.4	2.8
Other food products.....	29	152.1	77.8	84.9	79.1	80.5
Household equipment:						
Electrical goods.....	13	14.1	-5.4	3.5	9.3	2.9
Furniture and floor covering.....	9	16.4	-9.7	3.0	13.9	1.2
Other household supplies.....	15	39.9	8.3	22.3	32.0	26.7
Leather and shoes.....	13	21.0	3.2	11.2	11.4	5.6
Machinery and tools.....	76	75.5	-31.0	9.0	68.2	22.9
Mining:						
Coal.....	15	12.5	-2.7	8.9	4.1	-3.8
Copper.....	7	41.2	-9.7	13.5	35.7	21.1
Gold.....	14	21.5	14.3	30.8	37.0	29.8
Other mining.....	14	52.3	-7.4	27.0	79.6	44.3
Motion pictures and amusements	12	55.8	-15.5	21.3	47.4	30.8
Office equipment.....	12	45.8	-0.6	17.2	38.3	21.3
Paper and paper products.....	26	20.1	-4.5	11.8	21.8	11.2
Petroleum.....	40	166.0	4.3	28.4	162.1	73.1
Railroad equipment.....	18	63.4	-14.9	1.1	46.9	1.2
Retail trade:						
Chain stores.....	10	65.6	34.3	51.5	62.1	50.9
Department and apparel stores	21	37.1	-9.0	23.5	26.2	23.4
Food stores.....	13	31.3	20.1	17.7	10.4	11.9
Mail order houses.....	3	45.2	-8.6	26.9	52.6	44.6
Restaurants.....	5	4.8	0.2	-0.3	0.8	-0.8
Other retail stores.....	10	8.2	-5.5	3.1	6.3	2.5
Rubber and tires.....	10	34.1	-12.5	11.3	26.8	22.6
Shipping and shipbuilding.....	11	11.8	-5.3	-3.1	-1.8	-0.6
Steel.....	33	369.2	-139.4	-14.6	212.7	1.6
Textiles:						
Clothing and apparel.....	27	22.5	-10.0	3.5	7.5	4.8
Silk and rayon.....	9	6.0	0	6.0	8.3	3.7
Other textiles.....	14	3.2	-16.6	-7.0	-0.4	-9.8
Tobacco.....	16	105.0	113.8	80.2	88.0	83.9
Miscellaneous.....	47	61.0	-3.8	13.5	28.8	15.8
Total, 46 groups.....	831	2,812.8	-37.6	910.1	2,184.3	1,104.7
Class I Railroads, net income....	141	896.8	-150.6	-29.4	98.7	-122.9
Telephone companies, net operating income.....	91	*	190.9	191.1	226.8	209.8
Other public utilities, net income	82	413.2	299.3	250.9	300.1	267.9

-- Deficit. * Not available.

Foreign Exchanges

Renewed tension in Europe during the second half of March gave rise to heavy sales of the principal European currencies against dollars, and in the aggregate the movement of capital to this country reached the highest levels recorded for any two-week period since October, 1938. The German occupation of Bohemia and Moravia on March 14 and 15, the occupation of Memel on March 23, the German economic agreement with

Rumania, and German press attacks against Poland provided the background for the European tension. In addition, Premier Mussolini's speeches at the end of the month relative to Italian demands on France, gave rise to further prospect of continuing crises in Europe.

The heavy demand for dollars during the month was concentrated in the period following March 13. On that date sterling had reached a quotation of \$4.69 3/16 from \$4.68 3/4 at the end of February, and at no point in the ensuing flight of capital to New York did the rate go below \$4.68 1/8. Similarly, rates for the French franc, the belga, and the Dutch guilder were confined within a narrow range by means of official supporting operations. The Swiss franc, however, was allowed to decline from a quotation of \$0.2275 1/2 on March 10 to a low of \$0.2246 1/2 on March 22, closing the month even lower at \$0.2243. The Canadian dollar showed strength in the early part of the month, rising from a discount of 3/8 per cent on February 28 to a discount of 3/16 per cent on March 11, but weakened thereafter to as low as 3/8 per cent and closed the month at a discount of approximately 1/2 per cent.

After the German occupation of Bohemia and Moravia, the flight of capital from Europe developed slowly to reach a peak on March 17 and again on March 20. Support for sterling was rendered not only by the British authorities in the exchange market, but also by heavy private gold engagements in London for shipment to and sale in New York, such gold being provided partly by sales by hoarders, who feared that in the event of war in Europe they would be unable to obtain insurance and shipping facilities to move their bullion, and partly by the British authorities. The Dutch guilder and the Swiss franc were under severe pressure during this period, as refugee money left Holland and Switzerland in fear of German aggression against these contiguous countries. Sales of belgas took place not only in response to developments in central Europe, but also because of the continued inability of any Belgian political leader to form a new Government and the consequent dissolution of Parliament pending new elections on April 2. Exceptional strength was shown by the French franc through March 14, as French capital returned to Paris from London, Amsterdam, Brussels, and Switzerland, and French losses of capital during the latter period were comparatively insignificant. Demand for dollars during March was manifest not only in spot purchases, but also in widening discounts on forward quotations for the principal European currencies. In addition, widespread demand for United States currency developed in Europe and resulted in a premium on such currency over dollar exchange and in substantial shipments of United States currency to Europe from New York.

Despite the general demand for dollars in Europe foreign sales of American securities in the New York market occurred in relatively heavy volume at the middle of the month but subsided near the month end; similar sales had been made during the period of tension at the end of January prior to Hitler's speech on January 30 and during the weeks of September preceding the Munich settlement. Such foreign liquidation of American as well as foreign securities in times of recent political tension

appears to be associated with the desire of residents abroad for liquidity in the event of war.

Latin American and Far Eastern exchanges fluctuated narrowly during the month.

Gold Movements

The accentuation of political tension in Europe led to an accelerated flow of capital and of gold to the United States in March. In addition to the large amounts of gold actually received in this country during the month, further large amounts were reported to be en route here as the month closed, representing heavy engagements abroad in the latter part of the month.

The gold stock of the United States appears to have increased approximately \$385,000,000 during March, reaching a new high well above the \$15,000,000,000 level. The rise in the gold stock during the past month was the largest since last September when the gain was \$624,000,000. Included in the March increase was \$195,500,000, of gold, received through commercial banks or other sources, that was sold to the Treasury on arrival, and a large additional amount of gold received through transactions not currently reported. There was a net decrease of \$10,800,000 in the amount of gold held under earmark in this country for foreign central banks, which at the end of March totaled approximately \$650,000,000.

Most of the reported gold imports were received at New York; they came principally from England in the amount of \$151,400,000, from Belgium in the amount of \$10,200,000, Canada \$6,200,000, Holland \$3,500,000, India \$3,300,000, Switzerland \$2,800,000, Colombia \$1,100,000, France \$800,000, and smaller amounts from several other countries. On the West Coast, \$11,500,000 was received from Japan, \$4,000,000 from Australia, and \$700,000 from China.

Building

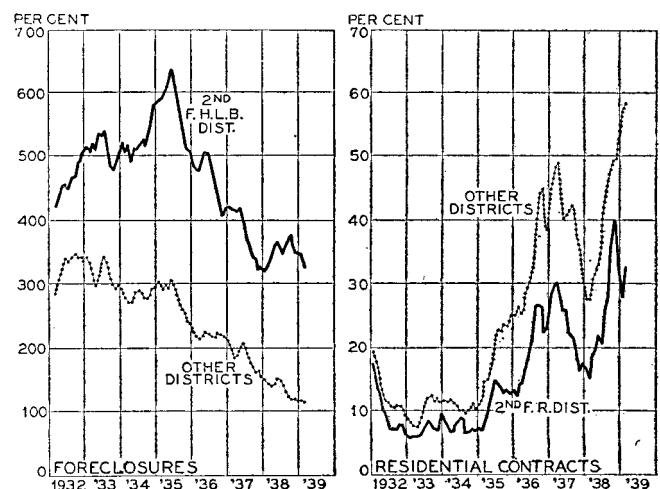
During February construction contracts in the 37 States covered by the F. W. Dodge Corporation were awarded at a daily rate 5 per cent below the January average, thereby continuing in smaller degree the decrease from the comparatively heavy volume of contracts in December. The decline from January to February was due principally to a decrease in heavy engineering awards; moderate increases occurred in several other types of construction, especially in residential building. Compared with a year ago, total construction contracts increased 85 per cent, all of the leading categories of construction participating in the advance.

In the New York and Northern New Jersey area the daily rate of construction contract awards during February showed a decline from the previous month amounting to 29 per cent, a considerably larger reduction than for the country generally. Heavy engineering projects decreased 70 per cent from January to February, while building contracts declined only 7 per cent, a substantial increase in residential construction partially offsetting decreases in other types of building. Total construction awards, however, were more than double the exceptionally small volume of February, 1938.

For the first three weeks of March, construction contract awards in 37 States increased 6 per cent over the

February rate; a gain of 21 per cent in residential building was offset in large part by a substantial decline in public works and utilities. Compared with the corresponding period in 1938, all the major types of construction continued to show increases, the largest of which was 62 per cent for residential building.

Significant differences between the building situation in the Second Federal Reserve District and in the rest of the country are indicated by comparisons of residential building contracts and real estate foreclosures in these areas. To the extent that real estate mortgages are foreclosed the amount of property pressing on the market is increased and this constitutes a considerable deterrent to the building of new houses. As one part of the accompanying diagram indicates, non-farm foreclosures since 1932 in the Second Federal Home Loan District (State totals for New York and New Jersey) have been consistently higher relative to the 1926 level than foreclosures in other districts. The peak of foreclosures was reached considerably later and at a much higher level in this district than in the rest of the country, and an increase occurred here last year which had no counterpart in other parts of the country taken as a whole. The restraining effect of higher foreclosure rates on building activity is illustrated in the other part of the diagram, in which it is shown that residential building during recent years has made considerably less recovery in this District than elsewhere. In February of this year foreclosures in the second district, although equal to only about one-half the number in the middle of 1935, were still over three times the 1926 monthly average. Meanwhile, the volume of building in this area was equal to only about one-third of the 1926 average, although in the fall of 1938 the amount of residential building contracts was temporarily raised to a higher level, partly due to United States Housing Authority projects. In other districts foreclosures have declined almost continuously since 1932, to a current level only slightly above the 1926 base period, and residential building in these districts has risen much more than in this District.



Real Estate Foreclosures Compared with Residential Building Contracts (Federal Home Loan Bank Board data for non-farm foreclosures; F. W. Dodge Corporation data for residential building contracts; 3 month moving averages of data on 1926 base)

Employment and Payrolls

Following a substantial seasonal reduction in January, employment in nonagricultural industries in the United States increased slightly in February, and approximately 100,000 more workers were employed than at this time last year, according to the Secretary of Labor. An increase in factory employment was partially offset by a net reduction in the number of workers engaged in other nonagricultural pursuits.

Factory employment increased about 1½ per cent from mid-January to mid-February, but the advance was somewhat less than is usual for February. The resulting decline in the seasonally adjusted index of factory employment represented the first reduction since June, 1938. Gains in factory employment were quite general, and durable and nondurable goods industries shared about equally in the advance. The largest increases during the month were seasonal additions to working forces at plants manufacturing men's and women's clothing. Compared with February, 1938 factory employment was 3 per cent higher.

Factory payrolls increased 2½ per cent in February, considerably less than usual at this time of the year, but were 11 per cent higher than in February a year ago.

In New York State, on the other hand, February gains in both factory employment and payrolls were slightly larger than usual for this season. Adjusted indexes of factory employment and payrolls accordingly continued to advance, although the employment index rose at a somewhat slower rate than in the three preceding months. Both indexes reached the highest levels since November, 1937, but remained well below the peaks reached in that year. Practically all of the major industries shared in the February increase in employment; seasonal advances in clothing and millinery were particularly pronounced.

Production and Trade

Preliminary evidence indicates that there was little change in the general level of business activity in March, after consideration of seasonal factors. Gains in manufacturing failed to reach the usual seasonal proportions in some lines, but the volume of merchandise distribution apparently compared favorably with February.

Steel mill operations were maintained around 55 to 56 per cent of capacity during March, or only slightly above the average for February; ordinarily there is a rather pronounced advance. Automobile assemblies were stepped up moderately from week to week during March, but although running about two-thirds ahead of a year ago, the February-March rise was somewhat smaller than in most other years. However, reports indicated that cotton mill activity was well maintained, despite a shrinkage in the volume of new business booked in the latter part of the month; shipments of freight by railway showed little change from the February level after adjustment for seasonal influences; and electric power generation and bituminous coal production were reduced only about as usual. In the four weeks ended March 25

department store sales in this District were nearly 3 per cent higher than in the corresponding 1938 period, the most favorable year-to-year comparison in a number of months. While the improvement in year-to-year comparisons in this case was contributed to by the declining tendency in sales last year, and by the somewhat earlier date of Easter this year than last, the rate of sales appears to have increased more than seasonally between February and March.

In February there was a further moderate recession in business activity, after allowance for the usual seasonal factors. The rate of steel ingot production increased less than in most other years, automobile assemblies were lower than in January, and operations at meat packing plants declined more than usual. About the customary seasonal changes occurred in a number of industries, including those producing cotton textiles, shoes, tobacco products, and electric power. Bituminous coal production continued at approximately the January rate, in contrast with the moderate decline experienced in many past years, and cement output increased. The dollar value of machine tool orders advanced further in February. Except for a temporary lull last fall, machine tool orders have been increasing sharply since May, 1938,

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

	1938		1939	
	Feb.	Dec.	Jan.	Feb.
<i>Industrial Production</i>				
Steel.....	39	80	69	67
Copper.....	70	95	86	80 _p
Passenger cars.....	46	83	84	79
Motor trucks.....	72	87	82	85
Bituminous coal.....	65 _r	79	77	80 _p
Crude petroleum.....	92	88	88	88 _p
Electric power.....	85	93	91 _p	91 _p
Cement.....	46	71	57	63
Cotton consumption.....	73	101	94	95
Wool consumption.....	55	135	104	106 _p
Shoes.....	95	119	116 _p	114 _p
Meat packing.....	82	87	84	78
Tobacco products.....	87	95	87	87
<i>Employment</i>				
Employment, manufacturing, U. S.....	90	93	93	92 _p
Employee hours, manufacturing, U. S.....	87	75	74	74 _p
<i>Construction</i>				
Residential building contracts.....	25	40	47	48
Nonresidential building and engineering contracts.....	38	112	69	67
<i>Primary Distribution</i>				
Car loadings, merchandise and misc.....	74	81	79	79
Car loadings, other.....	64	79	75	71
Exports.....	90	80	71	79
Imports.....	64	73	71	64
<i>Distribution to Consumer</i>				
Department store sales, U. S.....	83	87	86	85
Department store sales, 2nd District.....	78	81	76	76
Chain grocery sales.....	100	114	111	112 _p
Other chain store sales.....	89	100	97	93
Mail order house sales.....	87	95	91	94
New passenger car registrations.....	58 _r	77	82	79 _p
<i>Velocity of Deposits†</i>				
Velocity of demand deposits outside New York City (1919-25 average=100 per cent).....	62	66	61	60
Velocity of demand deposits, New York City (1919-25 average=100 per cent).....	36	44	36	35
<i>Prices and Wages†</i>				
General price level (1913 average=100 per cent).....	154	155	155	154 _p
Cost of living (1913 average=100 per cent).....	148	148	147	146
Composite index of wages (1926 average=100 per cent).....	111	111	111	111 _p

_p Preliminary. _r Revised. † Not adjusted for trend.

and in February reached the highest level since September, 1937.

Commodity Prices

After a period of firmness in the early part of March, prices in leading wholesale commodity markets evidenced some tendency to decline as the month progressed.

One of the largest declines occurred in the average price of hogs which fell 66 cents at Chicago to \$7.17 a hundredweight, or to about the level prevailing around the middle of January. Rubber reached a new high since last November on March 4, but subsequently declined about 1 cent to 15 $\frac{7}{8}$ cents a pound on March 22, accompanying speculative liquidation in futures; the price moved irregularly during the remainder of the month. Spot quotations for cotton receded moderately, and wheat prices tended slightly lower. Rather wide fluctuations continued to be shown in raw silk prices during the month. After reaching \$2.33 $\frac{1}{2}$ a pound on March 2, the highest point since October, 1935, silk declined to close the month at \$2.22 $\frac{1}{2}$, or near the level prevailing at the end of February. Quotations for raw sugar were advanced slightly in response to a prospective downward revision in quotas for the various producing areas for 1939.

Among the metals, some price advances occurred during March. The price of lead was increased 10 points on March 9 to 4.85 cents a pound, thus restoring the level which prevailed prior to February 16. This advance reflected higher prices in the London market and also an improvement in domestic demand for lead. Associated with a curtailment of export quotas, the price of tin rose 50 points to 46.75 cents a pound, later receding to 46.50 cents. Scrap steel prices were advanced 12 $\frac{1}{2}$ cents a ton at Pittsburgh, but finished steel prices were reaffirmed for the second quarter.

Foreign Trade

During February merchandise exports from the United States showed a slight increase to \$219,000,000, while imports, valued at \$158,000,000, were substantially smaller than in January. Compared with February, 1938, however, exports showed a decline of 17 per cent, while imports were down only 3 per cent in value and were fractionally larger in quantity, according to calculations by the United States Department of Commerce. The \$61,000,000 export balance in February, although representing an increase over the January excess of exports, was smaller than in any other month since August, 1937.

Among the major export groups, shipments of crude foodstuffs and crude materials showed the largest year-to-year declines in February; in the case of crude foodstuffs the decrease amounted to more than 50 per cent, and in crude materials to about 25 per cent. On the other hand, shipments of wholly and partly finished manufactures showed relatively small declines from February, 1938, and an increase of 13 per cent occurred in exports of manufactured foodstuffs, chiefly wheat flour, meat products, and canned fruits. Among the imports,

finished manufactures were somewhat smaller in value than a year previous, and receipts of manufactured foodstuffs were reduced by about one fourth, while other major types of imports registered increases ranging from 2 per cent for crude foodstuffs to 15 per cent for semi-manufactured products. In the category of semimanufactures, large gains compared with February, 1938 occurred in receipts of unset diamonds, nickel, and lumber products.

Department Store Trade

Total sales of the reporting department stores in this District during the four weeks ended March 25 were nearly 3 per cent higher than in the corresponding 1938 period, the most favorable year-to-year comparison in a number of months. While the improvement in year-to-year comparisons was contributed to by the declining tendency in sales last year, and by the somewhat earlier date of Easter this year than last, the rate of sales appears to have increased more than seasonally between February and March.

For the month of February, total sales of the reporting department stores in this District were about 5 per cent lower than last year, a smaller decline than in January. In most localities, department store sales showed more favorable year-to-year comparisons than in the previous month. Total sales of the leading apparel stores in this District were 5 $\frac{1}{2}$ per cent lower than last year, also a smaller reduction than in January.

Locality	Percentage change February, 1939 compared with February, 1938		Per cent of accounts outstanding January 31 collected in February	
	Net sales	Stock on hand end of month	1938	1939
New York and Brooklyn	- 5.9	- 9.0	46.5	46.0
Buffalo	- 3.8	- 6.1	42.5	42.0
Rochester	- 2.3	-11.5	55.5	54.0
Syracuse	- 2.7	- 3.4	36.5	37.3
Northern New Jersey	- 4.0	- 5.0	40.9	38.4
Bridgeport	+ 0.2	+ 8.5	37.5	35.8
Elsewhere	- 4.2	- 0.1	30.0	30.6
Northern New York State	-16.8	.....	.....	.....
Southern New York State	- 4.8	.....	.....	.....
Central New York State	- 1.7	.....	.....	.....
Hudson River Valley District	- 6.2	.....	.....	.....
Westchester and Stamford	- 4.6	.....	.....	.....
Niagara Falls	+ 0.2	.....	.....	.....
All department stores	- 5.1	- 7.7	44.2	43.1
Apparel stores	- 5.5	+ 1.3	39.4	39.2

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

	1938		1939	
	Feb.	Dec.	Jan.	Feb.
Sales, unadjusted	74	164	68	71
Sales, seasonally adjusted	91	92	86	86
Stocks, unadjusted	78r	74	68	72
Stocks, seasonally adjusted	83r	75	75	77

r Revised.

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

Business Conditions in the United States

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

IN February industrial activity continued at the January rate, without showing the usual rise, and retail trade increased less than seasonally. In the first three weeks of March, however, industrial activity and trade showed seasonal increases. Commodity prices continued to show little change.

PRODUCTION

Volume of industrial production was at about the same rate in February as in the two previous months, although usually there is an increase, and the Board's seasonally adjusted index declined further to 98 per cent of the 1923-1925 average. In the steel industry activity did not show the usual seasonal advance. Pig iron production increased, but new orders for steel were in limited volume and ingot production remained at about 54 per cent of capacity throughout the month. There was some decline in automobile assemblies, following a period of considerable increase. Output of lumber and plate glass continued to decrease in February, while cement production, which had been curtailed in January, increased considerably. In the first three weeks of March steel production increased to about 56 per cent of capacity and automobile output was also in somewhat larger volume.

Textile production in February was at about the same rate as in January. At cotton and woolen mills activity increased somewhat but at silk mills there was a marked decline. Output of shoes and tobacco products continued at high levels. In the meat packing industry activity declined further and there was also a decrease in activity at sugar refineries.

Bituminous coal production was maintained in February, and crude petroleum output likewise continued in substantial volume. Anthracite output declined in February, and in March was reduced further as mine owners and workers agreed on a curtailment program.

Value of construction contracts awarded declined in February, according to F. W. Dodge Corporation figures, owing principally to a further decrease in awards for publicly financed work. Contracts for privately financed residential building increased further, while awards for private nonresidential building remained at the low level of other recent months.

EMPLOYMENT

Factory employment and payrolls increased somewhat less than is usual between the middle of January and the middle of February. Changes in non-manufacturing lines were largely of a seasonal nature.

DISTRIBUTION

Department store sales were in about the same volume in February as in January, although some increase is usual, and sales at variety stores increased less than seasonally, while mail order sales rose by slightly more than the seasonal amount. In the early part of March department store sales increased.

Freight car loadings declined somewhat from January to February, reflecting for the most part reduced shipments of grains, forest products, and miscellaneous freight.

COMMODITY PRICES

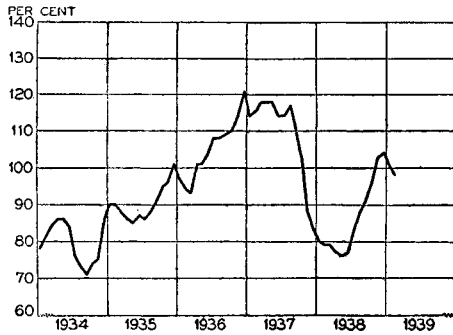
Wholesale commodity prices were generally maintained with little change during February and the first three weeks of March. As is usual at this season prices of livestock and meats increased while dairy products declined. Silk prices advanced considerably in this period. In the early part of March current prices of pig iron and of semifinished and finished steel were reaffirmed for the second quarter of this year.

BANK CREDIT

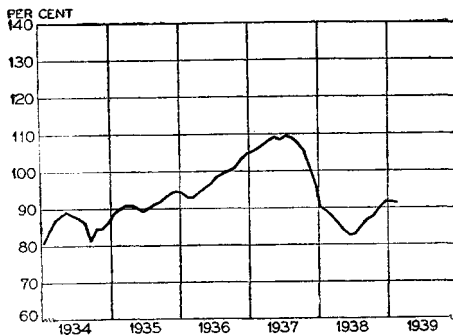
Investments in United States Government obligations by New York City banks increased considerably in February and the first half of March. In this period member banks reduced their holdings of Treasury notes and increased their bonds, reflecting in part exchanges of notes for new bond issues on March 15. Excess reserves of member banks continued somewhat below the high level of \$3,600,000,000 reached at the end of January, fluctuating largely in accordance with changes in Treasury balances at the Federal Reserve Banks.

MONEY RATES

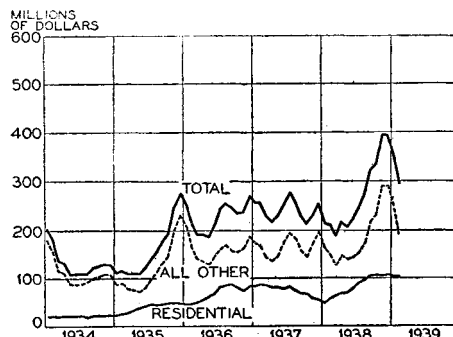
Average yields on United States Government securities declined to new record low levels from February 27 to March 10, following the announcement by the Treasury that no cash would be raised in the March financing. Yields rose slightly after the middle of March accompanying renewed tension in Europe. New issues of 91 day Treasury bills continued to sell on practically a no-yield basis during March. Other open market rates continued unchanged.



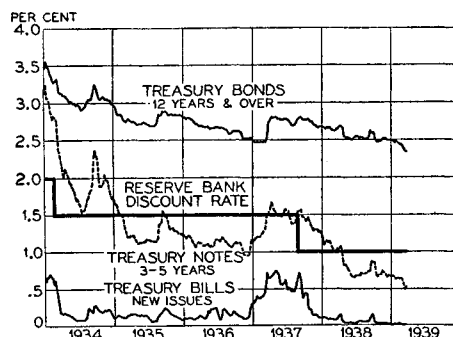
Index of Physical Volume of Industrial Production, Adjusted for Seasonal Variation (1923-25 average = 100 per cent)



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



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



Money Rates in New York City