

MONTHLY REVIEW

of Credit and Business Conditions

Second Federal Reserve District

Federal Reserve Bank, New York

May 1, 1939

Money Market in April

Uncertainty concerning the European political situation has been reflected, during the past month, in a continued flow of capital and an accompanying flow of gold to this country, at a rate equaled only during the European crisis of last September.

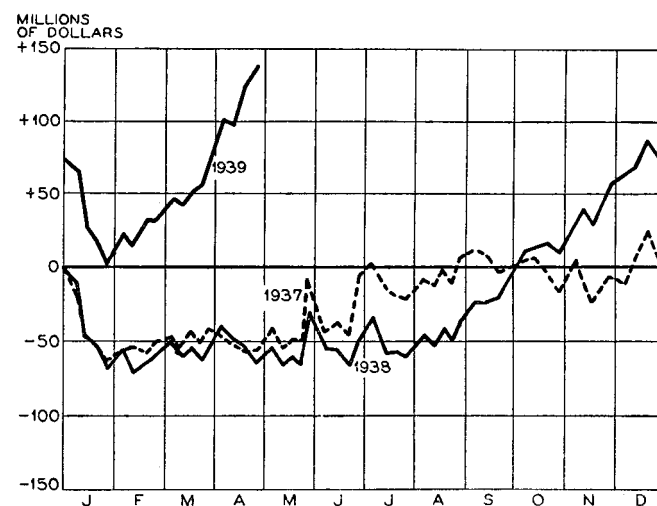
Between March 15 and April 26 the gold stock of the United States increased by \$731,000,000 to \$15,714,000,000. For the first four months of the year the increase in the gold stock was approximately \$1,200,000,000, an amount about equal to the annual world production of gold, and about four-fifths as large as the average annual increase in this country's gold stock in the years 1934 to 1938, inclusive. The continued excess of merchandise exports from the United States over merchandise imports has been a factor in the heavy inflow of gold. A more important factor, however, has been the flow of capital from Europe to the United States, which has represented, in part, withdrawals of American commercial and other funds from Europe, but more largely transfers of European funds, seeking safety in the United States because of disturbed conditions abroad.

Further evidence of a desire, on the part of foreigners, to hold their funds in dollars rather than in European currencies has appeared in unusual demands for large denomination Federal Reserve notes at this bank during the past two months. Substantial amounts of such notes have been shipped abroad and smaller amounts apparently have been placed in safe deposit boxes for foreign accounts in New York banks. In March, ten of the principal New York City banks shipped \$25,000,000 of United States currency abroad, the largest amount for any month since the reports were initiated in 1923, and in April the amount appears to have been substantially larger. At this bank, unusual withdrawals of Federal Reserve notes of \$50 to \$10,000 denominations, by New York City banks, amounted to well over \$50,000,000 in April.

The effect of foreign demands for United States currency, on the amount of currency nominally "in circulation" in this District, is indicated in the accompanying diagram, which compares changes in the amount of currency outstanding through this bank, as indicated by currency withdrawals and deposits, during the first four months of 1939 with corresponding changes in the two preceding years. As this diagram shows, the

unusual increase in the amount of currency paid out by this bank during the past two months follows a substantial increase in the autumn of 1938, which apparently reflected the combined effect of greater domestic demands for currency incident to the sharp rise in business activity in that period, and unusual foreign demands for United States currency, induced by the crisis of last September and the subsequent continued political unsettlement in Europe.

Despite the large withdrawals of currency for foreign accounts in recent weeks, excess reserves of New York City member banks have reached successive new high levels in recent weeks. Reserves of these banks increased nearly \$600,000,000 in the five weeks ended April 26, to a total of more than \$5,000,000,000, due to the heavy inflow of foreign funds, and although there has been an accompanying increase in deposits and a consequent increase in reserve requirements, excess reserves have risen \$445,000,000 to more than \$2,400,000,000. In other parts of the country also there has been a substantial increase in excess reserves of member banks in recent weeks, which appears to have been due chiefly to Government spending of a part of the large Treasury balances previously accumulated in the Federal Reserve Banks. For all member banks, excess reserves rose \$760,000,000 during the five week period, and on April 26 amounted to \$4,120,000,000.



Changes in Volume of Currency Outstanding through Federal Reserve Bank of New York (Weekly data cumulated from December 30, 1936)

MONEY RATES

Despite the disturbing effect on the security markets of the European situation, and of reduced activity in some lines of domestic business, related in part to the coal strike, prices of Government bonds rose somewhat further during April, and the average yield on long term issues declined to a new low level. Yields on Treasury bills, however, rose slightly in April, reflecting a technical market situation caused by cessation of the special demands for Treasury bills, which in the three preceding months had resulted in prices for such securities which left little, if any, yield. Other money rates remained unchanged.

Money Rates in New York

	Apr. 30, 1938	Mar. 31, 1939	Apr. 29, 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	1/2-5/8	1/2-5/8
Bills—90 day undorsed.....	1/16	1/16	1/16
Average yield on Treasury notes (3-5 year).....	0.82	0.50	0.48
Average yield on Treasury bonds (more than 12 years to maturity or call date).....	2.53	2.31	2.26
Average rate on latest Treasury bill sale 91 day issue.....	0.037	†	0.016
Federal Reserve Bank of New York rediscount rate.....	1	1	1
Federal Reserve Bank of New York buying rate for 90 day indorsed bills.....	1/2	1/2	1/2

* Nominal

† Average price slightly below par

MEMBER BANK CREDIT

Weekly reports from member banks in 101 principal cities throughout the country showed a further increase in holdings of Government securities in April, the principal demand for Government bonds again being from the New York City banks. The Government bond holdings of these banks increased \$121,000,000 further during the four weeks ended April 26, making a total increase since February 15 of \$551,000,000, of which only about \$100,000,000 was accounted for by the exchange of Treasury notes for new Treasury bonds on March 15. Commercial and industrial loans of the New York banks also increased slightly in April, but loans to security brokers and dealers dropped to the lowest levels since last October.

Reporting member banks in other principal cities also showed a further increase in commercial, industrial, and agricultural loans during the first three weeks of April. For all reporting banks the increase in such loans since early February appears to have been about as large as usual for the time of year, although it has been considerably less than in the corresponding periods in 1936 and 1937 when there was a strong upward trend in business loans.

Demand deposits of reporting New York City member banks rose to new high levels in April, reflecting in large part the increase in the amount of funds held for foreign individuals and corporations. At reporting member banks in other principal cities, also, demand deposits rose substantially in April, but remained somewhat below the levels reached in January and early February.

GOVERNMENT SECURITIES

Prices of Treasury securities held relatively firm during the early part of April when prices of stocks

and second grade bonds were showing sizable declines because of apprehension over the European political situation. The average price of Treasury bonds of more than 12 year term to call date or maturity, which had reached a high level near the end of March, declined only 5/8 of a point through the first eleven days of April, as the development of somewhat lower prices attracted buying by banks and insurance companies. In the subsequent part of the month average prices rose more than one point to new high levels under the influence of continued bank and insurance company buying. As a result of these comparatively narrow price movements, the average yield on Treasury bonds over 12 year term moved only from 2.29 per cent on March 30 to 2.34 per cent on April 11, and then declined to a new low of 2.25 per cent on April 28. Treasury note yields moved within an even narrower range, from 0.48 per cent on March 30 to 0.52 per cent on April 11, and then back to 0.47 per cent on April 28.

The average prices at which weekly Treasury bill issues were sold by the Treasury declined slightly in April, as the special demands for Treasury bills, which had previously raised the prices bid for the new issues, diminished in April. On the four weekly issues, each in the amount of \$100,000,000, which replaced similar weekly maturities, the average rates moved from 0.016 per cent on the issue dated April 5 to 0.025 per cent on the issue of April 12, and then declined to 0.016 per cent on the issue of April 26.

BILLS AND COMMERCIAL PAPER

The bill market continued to be inactive during April, reflecting unwillingness of accepting banks and bankers to release for sale in the market any appreciable amount of bankers acceptances. As for some time past, accepting banks preferred to release bills only to institutions from which bills in turn might be acquired. No change occurred in dealers' quoted rates. The volume of bankers acceptances outstanding at the end of March showed a further small decrease, usual at this time of year, due chiefly to a decline in domestic warehouse credits. Declines in this class of acceptance and in export bills accounted for most of the reduction of \$48,000,000 from a year ago in the total volume of bills outstanding.

(Millions of dollars)

Type of acceptance	Mar. 31, 1938	Feb. 28, 1939	Mar. 31, 1939
Import.....	91	87	87
Export.....	75	57	58
Domestic shipment.....	8	10	9
Domestic warehouse credit.....	55	38	33
Dollar exchange.....	2	2	2
Based on goods stored in or shipped between foreign countries.....	62	54	56
Total.....	293	248	245

The commercial paper market remained dull during April, as dealers were unable to secure new paper in a volume adequate to take care of the bank investment demand. While dealers continued to report the prevailing rate for average grade prime four to six month commercial paper at 1/2 to 5/8 per cent, a tendency toward lower levels was evident in that the 1/2 per cent rate applied to somewhat the larger proportion of the sales. Commercial paper houses had a total of \$191,200,000 of

paper outstanding at the end of March. This was 2 per cent less than a month before and 36 per cent less than a year ago.

Security Markets

Reflecting increased apprehension over the European situation and some disappointment over domestic business developments, stock prices declined considerably further during the first week of April, and on April 8 showed a net decline of 22 per cent from the March 10 level which was close to the year's high. At the level reached on April 8, the general average of stock prices was the lowest since June of last year, indicating the cancellation of nearly 70 per cent of the rise which occurred between March and November, 1938. During the first week of April the volume of stock trading on the New York Stock Exchange increased moderately to a daily average of about 1,600,000 shares. On the whole it appears that purchases of domestic securities by foreigners were in excess of sales during this period, and that the decline in stock prices and the moderate increase in volume of trading on the Exchange reflected chiefly transactions for American account.

During the second week of April, stock prices began to recover somewhat, owing to the development of a less apprehensive attitude concerning the European situation, and prices advanced sharply after the announcement of President Roosevelt's direct peace appeal to the German and Italian governments, with the result that the general average of prices showed a net advance of 9 per cent. In the succeeding part of April, prices fluctuated irregularly in a very quiet market—in one full business session the turnover was only 400,000 shares—and at the end of April quotations averaged about 7 per cent above the month's low.

Like stock prices, medium and lower grade bond prices receded further in the first part of April, and at an accelerated rate. During this period the decline in the average price of issues rated Baa by Moody's Investors Service averaged $3\frac{3}{4}$ points, which together with the decline in the second half of March, made a total fall of $6\frac{1}{8}$ points from the March peak. Subsequent recovery in Baa issues during April averaged about $1\frac{1}{2}$ points, but they remained more than $4\frac{1}{2}$ points below their March

highs. In highest grade corporate bonds, the declines were much smaller than in medium and lower grade bonds, and the rate of decline was slower than in March. The average price of Aaa issues, after receding about $1\frac{1}{4}$ points in March, showed a further decline of only $\frac{1}{2}$ point in the first part of April and subsequently recovered about $\frac{5}{8}$ point. The greater decline in prices of Baa issues than in Aaa issues is indicated in the accompanying diagram. This diagram shows that as a result of a rise to 5.26 per cent in the average yield on Baa bonds and of a rise to only 3.04 per cent in the Aaa bond yield, the spread between these two groups of bonds was enlarged to a maximum of 2.22 per cent in April, as compared with a minimum spread in March of 1.84 per cent. It remained considerably smaller, however, than a year ago, when it reached a maximum of 3.66 per cent at the end of March.

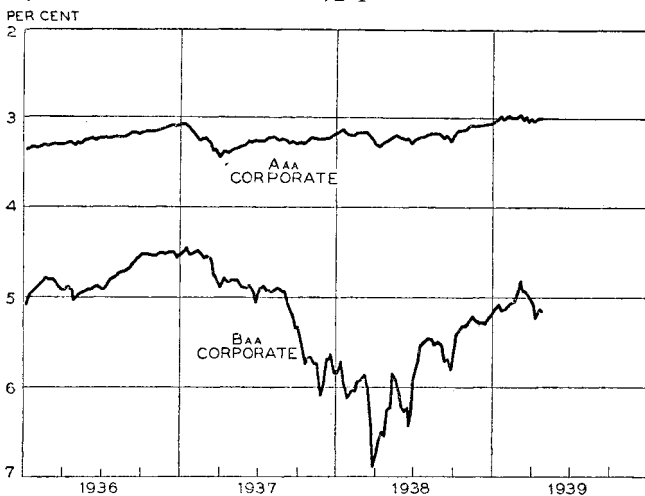
New Financing

Six large corporate security issues, comprising common stock, preferred stock, debentures, notes, and mortgage bonds, were marketed during April in the aggregate volume of \$236,000,000. Smaller issues brought the total for the month to about \$250,000,000, almost as much as the \$275,000,000 floated in the entire first quarter of this year. Of the \$250,000,000, some \$80,000,000 was for new capital purposes, principally for the Eastman Kodak Company and the Texas Corporation, and \$170,000,000 for refunding. In the first quarter, the average monthly volume of issues to provide new capital was only about \$15,000,000.

The large issues in April were:

- \$28,700,000 Eastman Kodak Company common stock offered to stockholders at \$127.50 a share
- 40,000,000 Texas Corporation 3 per cent debentures of 1959 at 101
- 24,700,000 Commonwealth Edison Company $3\frac{1}{2}$ per cent convertible debentures of 1958 offered to stockholders at 100
- 25,100,000 Consolidated Gas, Electric Light, and Power Company of Baltimore $4\frac{1}{2}$ per cent preferred stock offered at \$112.50 to holders of a preferred stock issue being refunded
- 52,500,000 Gatineau Power Company, of Canada, $3\frac{3}{4}$ per cent first mortgage bonds of 1969 at $98\frac{1}{4}$, in conjunction with an offering of additional securities in Canada
- 50,000,000 National Steel Corporation 3 per cent first (collateral) mortgage bonds of 1965 at 99, and, by the same company
- 15,000,000 of $1\frac{1}{2}$ - $2\frac{1}{2}$ per cent serial notes of 1940-49 at 100

The offering of two of the above issues was deferred for a few days on account of the unsettled conditions in the security markets. Nevertheless, despite international tension, the low interest rates on some of the issues, and the fact that some were not rated as of the highest grade, the large issues as well as the several smaller ones were successfully sold. Although at least one unusually large



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

corporate issue is expected in May, the month's flotations are unlikely to equal the volume of April.

Municipal bond awards reported in April amounted to about \$75,000,000. The largest issue was \$20,000,000 of State of New York 1¾ per cent bonds of 1940-79. Awarded at an interest cost of 1.74 per cent, the bonds were reoffered to yield from 0.20 to 1.85 per cent, depending upon maturity. Strong demand continued during the month for high grade municipal obligations.

Balance of Payments of the United States

According to the preliminary balance of payments estimate for 1938 issued by the Department of Commerce, this country's international transactions in merchandise and services during the year resulted in an excess of receipts from abroad over payments to foreign countries of \$965,000,000, as contrasted with a surplus of receipts of only \$15,000,000 in the previous year. The 1938 surplus on current account was the largest for any year since 1921; even during the late twenties, when foreign demand for American goods was deriving support from heavy American investments abroad, the current account surplus in no year attained so high a level, and since 1931, when the direction of long term capital movement was reversed, a substantial balance in favor of this country for goods and services had been shown in only one year prior to 1938—1934, when a surplus of \$461,000,000 was recorded.

The marked increase in this country's current account surplus from 1937 to 1938 was due to the development late in 1937 of an exceptionally heavy surplus of merchandise exports. The merchandise export surplus for 1938 amounted to \$1,133,000,000, as compared with a surplus of \$265,000,000 in 1937. The sharp rise in the export trade balance was partly attributable to larger agricultural yields in the United States, which led to increased exports and reduced imports of some leading farm products, but much more largely to a contraction in this country's imports of basic materials, accompanying the sharp decline in domestic business activity. The comparatively moderate contraction in foreign demand for American goods in the face of a sharp fall in our imports was a result both of the ability of a number of primary producing countries to maintain for a time their purchases abroad by drawing upon the gold and exchange reserves which they had accumulated in the previous few years, and of the intense military preparations in major industrial countries, which operated towards sustaining both their internal activity and their requirements for imported materials and equipment. The contraction in incomes in the United States was reflected not only in reduced imports but also in a decline in travel expenditures abroad and in personal remittances and institutional contributions to foreign countries. On the other hand, some decrease was shown during 1938 in our net interest and dividend income as an international creditor country.

Diverse tendencies were evident in movements of capital between the United States and foreign countries during 1938, reflecting wide changes in speculative anticipations. The net movement of long term capital to this country was the smallest for several years. During

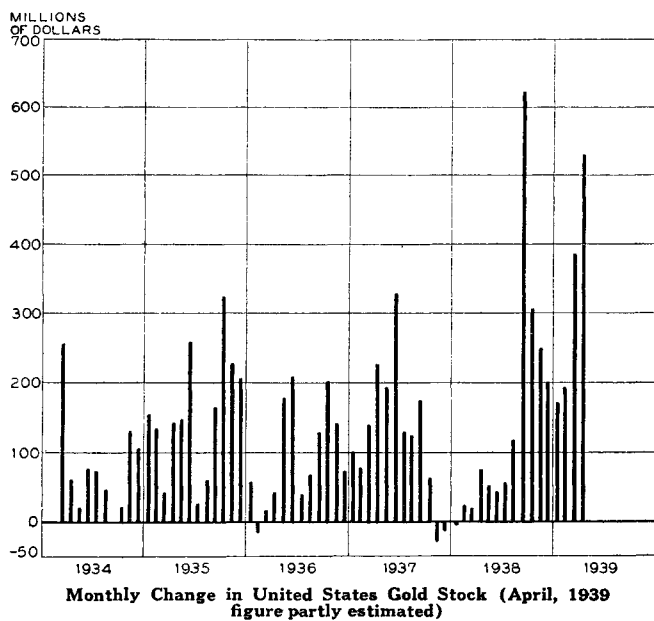
the first seven months of 1938, as in the final quarter of 1937, foreign balances in this country were drawn down, owing to a persistent belief in foreign centers that further devaluation of the dollar might be undertaken as a recovery measure. As a result, the rate of gold inflow in this period was comparatively moderate despite the large net balance due this country on trade and service account. In the last five months of the year, however, the earlier outflow of foreign balances was more than offset by an extraordinarily heavy inward movement of funds from abroad, with the result that at the end of the year foreign balances in banks in the United States, at \$2,004,000,000, were close to the high level reached in the summer of 1937. The flight of funds to this country, superimposed upon a heavy current account surplus, led to an unprecedented rate of gold inflow in September and October, and for the year as a whole the inward movement was, with one exception, the largest on record. In addition to a net inward gold movement of \$1,640,000,000, the United States acquired \$224,000,000 of silver from abroad.

(Net figures in millions of dollars:
+ indicates amounts payable by foreigners to U. S., and — indicates
amounts payable by U. S. to foreigners on specified transactions.)

	1937	1938
I. Current Account		
Merchandise trade.....	+265	+1,133
Travel expenditures.....	-403	- 353
Personal remittances and institutional contributions.....	-180	- 155
Freight and shipping.....	-103	- 40
Income from foreign investments.....	+330	+ 275
Other current items.....	+106	+ 105
Balance on current account.....	+ 15	+ 965
II. Capital Account		
Long term capital.....	+522	+124
Short term banking funds.....	+354	+295
Currency movement.....	0	+ 15
Other reported capital movements.....	+ 5	- 4
Balance on capital account.....	+881	+430
III. Silver shipments.....	- 83	-224
IV. Gold shipments and earmarkings.....	-1,386	-1,640
V. Other transactions and residual.....	+573	+469

Gold Movement

The movement of gold to this country from abroad, which had increased markedly during the previous month under the impetus of European war fears, proceeded at an even more rapid rate during April, and the month's inflow reached a figure which had been approached or exceeded in only three previous months—the month immediately following dollar devaluation (February, 1934) and September and October, 1938. All classes of imports of gold at New York in April totaled \$575,000,000, of which \$371,400,000 came from England, \$84,600,000 from Belgium, \$55,500,000 from Switzerland, \$44,300,000 from Holland, \$7,000,000 from Canada, \$4,600,000 from India, \$4,500,000 from Argentina, and \$2,100,000 from Colombia. On the West Coast, \$5,600,000 was received from Japan, \$4,200,000 from Australia, and \$300,000 from China. At the same time, however, there was a net increase of \$115,000,000 in the amount of gold held under earmark for foreign account at the Federal Reserve Banks, and at the close of the



month gold held under earmark for foreign account at the Federal Reserve Banks amounted to approximately \$770,000,000.

The gold stock of the United States increased about \$530,000,000 during the month, as compared with a gain of \$385,000,000 during March and \$624,000,000 last September, and reached a new high of approximately \$15,790,000,000.

Foreign Exchanges

Tension in Europe, during the month of April, caused a heavy inflow of short term funds to New York, from abroad, and in turn a large inflow of gold to this country. Pressure on the principal European exchanges was intensified early in the month, when Italian troops occupied Albania. The market was afforded temporary respite, in the middle of the month, when President Roosevelt's message was sent to Chancellor Hitler and Premier Mussolini asking for a peace commitment. Later in the month there appeared to be some relaxation in the tension, awaiting Chancellor Hitler's speech to the Reichstag, on April 28, in answer to President Roosevelt's message. British determination further to strengthen her military forces as evidenced in the budget estimates for the coming fiscal year and plans for British conscription, similarly seemed to add impetus to a month-end covering movement in most currencies. Chancellor Hitler's speech itself caused some momentary hesitation in the market, but subsequently the firmer tendency in continental currencies was resumed.

The pound sterling was maintained at, or slightly above \$4.68 during the month, and, in fact, reached \$4.68 $\frac{1}{2}$ temporarily at the time of President Roosevelt's message, but closed the month unchanged at \$4.68 $\frac{1}{8}$. Sales of sterling were particularly heavy immediately after the Easter holidays, which had witnessed the Italian occupation of Albania, but the pound was under pressure throughout the month, as a large movement of capital from London occurred.

The French franc was steady for the greater part of

the month, despite the recurrent tension, and the French authorities are believed to have gained further amounts of gold and foreign exchange. Spot francs closed the month at \$0.0264 $\frac{15}{16}$, compared with \$0.0264 $\frac{3}{4}$ at the end of March, and a slight improvement for the month took place in the franc rate in London. Guilders were subject to extremely heavy pressure in the early part of the month, although the rate never declined in this market below \$0.5308; subsequently this currency rose from \$0.5309 on April 22 to \$0.5351 at the month end, or the highest rate since near the end of February. Short covering, based partly upon a feeling that the European tension had lessened, was assigned as the principal reason for the improvement. Swiss francs similarly were under pressure over most of the month, but recovered at the month end to show a gain from \$0.2244 at the end of March to \$0.2247 at the end of April.

The pressure against the belga existing since mid-February was lifted at the end of April, after the Liberal-Catholic Cabinet formed on the basis of the Parliamentary elections of April 2 sought, and subsequently obtained, special decree powers in financial matters, but specifically disavowed any intention to devalue the belga. Earlier in the month the estimated gold export point of the belga had been reduced from \$0.1683 to \$0.1680 $\frac{1}{4}$, as a result of the increase in war risk insurance rates on gold shipped from the Continent. The maturity of substantial short positions in the belga near the month end carried the spot rate from \$0.1681 to \$0.1701, the highest since September, 1938, and reduced the discount on three month forward belgas from the equivalent of 19 per cent per annum on April 21 to 7 per cent per annum on April 28, the smallest discount since early March.

Forward rates for the other European currencies showed considerable weakness early in the month, although they firmed during the recovery of the last week, and the British authorities were reported to have been operating in forward sterling in an effort to prevent further increases in the premium on forward dollars. In the London gold market the increase in war risk insurance rates did not particularly affect either the sterling price of gold or its dollar equivalent, since the British Government put into operation a plan for reinsuring practically at the old rates war risk on shipments from the British Isles.

Canadian exchange was quoted close to $\frac{1}{2}$ per cent discount during the greater part of the month. No significant rate changes occurred in Latin American or Far Eastern currencies.

Central Bank Rate Changes

In response to a heavy outflow of capital and resulting pressure against Belgian exchange, the discount rate of the National Bank of Belgium was advanced on April 17 from 2 $\frac{1}{2}$ to 4 per cent. On another recent occasion—the May, 1938 exchange crisis—the rate was raised to 4 per cent, but had been reduced in the interim.

Building

Some evidence of seasonal expansion in construction was apparent in the contract figures for March compiled

by the F. W. Dodge Corporation, but the gain of 11 per cent over February in the daily rate of awards in 37 States was not as large as in most other years. Increases in awards for the major types of building construction were offset in considerable part by decreases in the heavy engineering classifications. A 29 per cent gain from February to March in residential building contracts raised the actual figure for this type of construction to the highest level since October, 1929, without the aid of any large contracts for United States Housing Authority projects. For the first quarter of 1939, total construction contract awards increased 44 per cent over the corresponding period of 1938. While all of the major categories of construction shared in some measure in the general rise, the increase of 83 per cent in residential building was the most marked. An increase of 25 per cent in awards for public works and utilities represents a somewhat smaller percentage gain than occurred in the calendar year 1938 as compared with 1937.

The daily rate of construction contracts in the New York and Northern New Jersey area during March showed an increase over the previous month of 29 per cent, a larger gain than for the country as a whole. All of the principal types of construction contributed to the aggregate gain in this district. Residential building, including the second unit of the large housing project by the Metropolitan Life Insurance Company in New York City, increased 34 per cent, and heavy engineering awards registered a gain of 58 per cent over the comparatively small February volume. During the first three months of 1939, total construction showed an increase of 28 per cent over the corresponding period in 1938, due entirely to large increases in residential and public purpose building; contracts for public works and public utilities combined were one-third lower.

During the first three weeks of April, construction contracts in the 37 States were awarded at a daily rate 9 per cent above the March average; the increase resulted principally from a large gain in heavy engineering awards, counterbalanced in some degree by a decline in residential building in this period. Compared with the corresponding period in April, 1938, total contracts showed a 61 per cent increase, in which all of the major types of construction participated.

Production and Trade

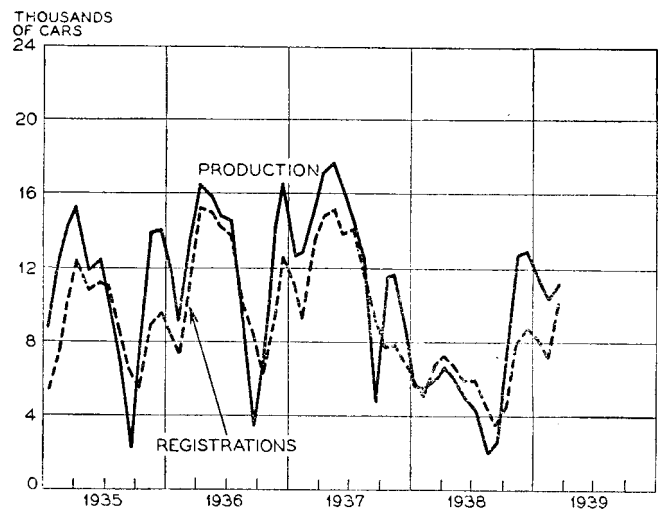
From preliminary information it appears that business activity in April probably showed a slight decline from the level prevailing during February and March, after allowance for seasonal influences. Continued fear of war in Europe and the suspension of bituminous coal production in the Appalachian area acted as depressing influences on the general business situation throughout the month. Steel production declined to a greater extent than usual between March and April, and the weekly figures indicate that automobile production, on an average daily basis, was close to the March level, instead of increasing sharply as in most previous years. Owing to the expiration of the former labor contract on March 31, and failure to reach an agreement upon a new one, the daily rate of bituminous coal production for the country as a whole dropped to approximately one-third of the March average. For the first three weeks of April electric power production and the movement of freight over the

railways were both somewhat lower than in March after allowance for seasonal changes. On the other hand, cotton textile mill activity is reported to have been maintained at around the relatively high level of recent months, whereas some slackening has often occurred at this period in past years. Although during most of the month the volume of cotton goods sold by the mills was below production, an increase in new business was noted during the final week.

After allowance for seasonal factors, little change was apparent in the general level of business activity between February and March. Moderate increases in the production of nondurable goods and in distribution to consumers were offset by a decline in the production of durable goods. On a daily average basis steel ingot production and automobile assemblies were higher than in February, but the increases were somewhat smaller than in most other years. Copper production was reduced. Cotton mill activity was not substantially changed, and approximately the usual seasonal movements characterized bituminous coal production, shoe production, and the generation of electric power, while the manufacture of tobacco products showed a contraseasonal increase, and operations at meat packing plants rose substantially after seasonal adjustment.

Department store and mail order house sales showed more than the usual seasonal expansion during March, and chain grocery store sales were also higher than in February although usually little change occurs. Sales of chain stores other than grocery, however, failed to advance as much as usual. Total shipments of freight by railway were at about the same level as in February after seasonal adjustment. New passenger car registrations increased more between February and March than last year, but less than in 1936 and 1937.

The accompanying diagram shows the movements since January, 1935 of production of passenger cars for the domestic market and new passenger car registrations. While the two series are not precisely comparable, differences between them reflect mainly changes in dealer stocks of new cars. In the last quarter of 1938, following a period of shutdowns for model changes, production



Daily Average Production of Passenger Automobiles for Domestic Use and Registrations of New Passenger Cars (Bureau of Census data for production and R. L. Polk & Company data for registrations)

rose sharply and reached the highest point since July, 1937. As is usual, production was stepped up to a much higher level than retail sales in order to create and build up dealer stocks of new models. In January and February production was somewhat curtailed, and further accumulation of dealer stocks, in anticipation of the spring selling season, proceeded somewhat less rapidly. The total increase in stocks in the five months' period October to February apparently was more than the accumulation a year ago and also somewhat more than that of the 1937 model season. In March, however, a sizable seasonal increase in registrations narrowed the gap between production and registrations, despite some rise in production. Last year registrations ran ahead of production from March through September, drawing down the previous accumulation of stocks, while in 1937 stocks continued to rise throughout the spring.

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

	1938	1939		
	Mar.	Jan.	Feb.	Mar.
<i>Industrial Production</i>				
Steel.....	40	69	67	65
Copper.....	65	86	80	74 _p
Passenger cars.....	43	84	79	72
Motor trucks.....	55	82	85	80
Bituminous coal.....	62	77	80	82 _p
Crude petroleum.....	92	88	87	86 _p
Electric power.....	84	91	91 _p	91 _p
Cement.....	53	57	63	71
Cotton consumption.....	76 _r	94	95	95
Wool consumption r.....	54	104	106	114 _p
Shoes r.....	99	116	109 _p	110 _p
Meat packing.....	84	84	78	90
Tobacco products.....	92	87	87	91
<i>Employment</i>				
Employment, manufacturing, U. S.....	88	93	92	92 _p
Employee hours, manufacturing, U. S.....	66	74	74	74 _p
<i>Construction</i>				
Residential building contracts.....	28	47	48	44
Nonresidential building and engineering contracts.....	45	69	67	53
<i>Primary Distribution</i>				
Car loadings, merchandise and misc.....	73	79	79	78
Car loadings, other.....	63	75	71	72
Exports r.....	86	71	80	88
Imports r.....	63	74	66	71
<i>Distribution to Consumer</i>				
Department store sales, U. S.....	81	86	85	86 _p
Department store sales, 2nd District.....	79	76	76	81 _p
Chain grocery sales.....	102	112 _r	112	115 _p
Other chain store sales.....	86	97	93	88 _p
Mail order house sales.....	90	91	94	98 _p
New passenger car registrations.....	51 _r	82	79	76 _p
<i>Velocity of Deposits†</i>				
Velocity of demand deposits, outside New York City (1919-25 average = 100 per cent).....	62	61	60	60
Velocity of demand deposits, New York City (1919-25 average = 100 per cent).....	38	36	35	36
<i>Prices and Wages†</i>				
General price level (1913 average = 100 per cent).....	152	155	154	154 _p
Cost of living (1913 average = 100 per cent).....	149	147	146	146
Composite index of wages (1926 average = 100 per cent).....	110	111	111	..

_p Preliminary.

_r Revised.

† Not adjusted for trend.

Employment and Payrolls

There was a further increase of about 200,000 workers in nonagricultural occupations during March, according to the Secretary of Labor. This gain, which occurred largely through seasonal expansion in manufacturing and in retail trade, was reported as slightly less than is usual between February and March. The number of persons

engaged in nonagricultural pursuits in March was approximately 360,000 higher than in the corresponding month last year, which is the most favorable year-to-year comparison since October, 1937.

The number of workers in United States factories and their aggregate remuneration in March again rose somewhat less than seasonally. A small gain in employment brought actual factory working forces to the highest level since December, 1937, but after allowing for the usual seasonal influences, the index of employment declined slightly; it remained within one point of the indexes for December, 1938 and January, 1939, however. Wage disbursements increased about 1½ per cent in March to the highest level since November, 1937, but on a seasonally adjusted basis this bank's index of factory payrolls receded to a somewhat lower level than in the previous three months. Working forces in nondurable goods industries showed about the usual expansion in March, but employment in durable goods factories increased considerably less than is customary at this time of year, reflecting primarily decreases in the number of workers at automobile plants, and lumber and lumber products mills.

Among nonmanufacturing industries, somewhat more than the usual seasonal increase occurred in employment in retail trade and private building construction. The gain of 2½ per cent in the number of workers in retail establishments exceeded the average March increases for the last ten years.

Employment and payrolls in New York State factories showed about the usual seasonal increases during March; employment advanced approximately 1 per cent and payrolls 3½ per cent. Increases in the number of workers were quite general; the largest gains occurred in the stone, clay, and glass products, and in millinery industries. Compared with March, 1938, employment was 7 per cent higher and payrolls 12½ per cent larger.

Commodity Prices

Prices of several important commodities showed sizable fluctuations during April, but the general average of wholesale prices was little changed. One of the most marked changes was in the raw silk quotation which, at \$2.58½ a pound on April 19, established a nine year high. Prices in New York reflected strong and active primary markets and a tight position in the spot market. Buyer resistance to the higher prices appeared, however, and spot silk subsequently receded to \$2.47½ a pound, compared with \$2.20½ at the end of March. Cotton prices fluctuated in response to various legislative proposals affecting this commodity. After touching a new low for the year at the middle of the month, prices rose following announcement of the latest cotton export subsidy proposal, and the average quotation for cotton at 10 Southern markets at the close of April was 8.74 cents a pound, up 26 points from the end of March. The price in foreign markets, on the other hand, declined, as the indicated subsidy of 2 cents a pound was interpreted as placing an upper limit on prices of cotton abroad.

Despite a lack of export demand, cash corn at Chicago advanced during the month, owing in part to small receipts in primary markets, and also to steadiness in the Buenos Aires market. Wheat prices were firm although

the April 1 Government crop report indicated a winter crop of 549,000,000 bushels, slightly larger than previous private estimates. The effect on the market of the favorable crop prospects, together with the existence of large remaining supplies of old wheat, appears to have been offset by European buying and reports of damage to the winter crop during April. On the other hand, seasonal gains in the marketings brought about a reduction in prices of livestock. On April 27 the average price of hogs at Chicago declined to a new low since December, 1934 at \$6.85 a hundredweight; the average quotation for steers closed April at \$10.21 a hundredweight, 29 cents below the end of March. A reduction to a new low since August, 1934 of 9 cents a pound occurred around the middle of April in the spot price of hides, but the quotation subsequently advanced to 9 $\frac{5}{8}$ cents. There was a decrease of about 2 cents a pound in domestic wool prices.

Mixed changes were also apparent in metal prices. Spot tin advanced to a new high since October, 1937 of 49 $\frac{1}{4}$ cents a pound, reflecting in part increased war risk insurance rates, low supplies, and consumer buying in anticipation of a further price advance. Copper prices were reduced by a succession of steps from 11 $\frac{1}{4}$ cents to 10 cents a pound, the lowest custom smelters' quotation since July, 1938, but the tendency was reversed on April 26 and an active demand was reported at 10 $\frac{1}{4}$ -10 $\frac{1}{2}$ cents a pound. Scrap steel prices also declined during the month. The quotation at Pittsburgh reached \$14.50 a ton, \$1.37 $\frac{1}{2}$ below the end of March; at Chicago the price was reduced \$1.50 to \$12.75 a ton.

Foreign Trade

This country's foreign trade increased more than seasonally during March; exports were valued at \$268,000,000 and imports at \$190,000,000, the latter representing the highest import total for any month since December, 1937. Compared with March, 1938, imports showed an increase of 10 per cent, while exports were about 3 per cent lower in value. The excess of exports of \$78,000,000, although larger than in the two preceding months, was smaller than in March a year ago, or than in most other months of 1938.

Increases over March, 1938 were general among the major groups of imports, with the exception of manufactured foodstuffs, which declined 14 per cent. Gains in other types of imports were substantial, ranging from 11 per cent for finished manufactures to 21 per cent for semimanufactures. In the category of wholly and partly finished products, imports of burlap, unset diamonds, newsprint paper, nickel, and tin showed marked increases. Among the crude materials, receipts of foreign wool were seven times the small volume of a year ago, and imports of hides and skins increased threefold. Material gains also occurred in imports of crude rubber, woodpulp, coffee, cocoa, and tea. On the other hand, receipts of sugar, inedible expressed oils, tobacco, and silk were considerably smaller in volume than a year ago.

Among the exports, a decline from March, 1938 of 19 per cent in products of agricultural origin was responsible for the slight decrease in aggregate value; non-agricultural exports registered an increase of 3 per cent. Shipments of raw cotton showed a reduction of

about 25 per cent in quantity and value from a year ago. Exports of wheat were almost equal to March of last year in quantity, but nearly 50 per cent lower in value, owing to the price decline, and even larger relative decreases occurred in corn exports. Shipments of crude petroleum also declined in volume and value from a year ago. On the other hand, exports of aircraft increased 34 per cent, and substantial gains over March, 1938 occurred in exports of industrial machinery, refined petroleum products, automobiles, and unmanufactured tobacco.

Department Store Trade

For the three weeks ended April 22, sales of the reporting department stores in this District were about 4 $\frac{1}{2}$ per cent less than in the corresponding period of 1938. However, this period includes only one week preceding Easter in 1939, while in the 1938 period two of the weeks preceded Easter. Comparing the two weeks preceding Easter in each case, sales this year were about the same as last year. Even after making allowance for the earlier Easter this year, however, it appears that April sales have failed to advance as much as usual over the March level.

In March, total sales of the reporting department stores in this District were 4 per cent higher than last year, the first year-to-year increase in about a year and a half. While the improvement in the year-to-year comparison was accounted for in part by the declining tendency in sales last year and by the somewhat earlier date of Easter this year, the rate of sales increased considerably more than seasonally between February and March.

Locality	Percentage change March, 1939 compared with March, 1938		Per cent of accounts outstanding February 28 collected in March	
	Net sales	Stock on hand end of month	1938	1939
New York and Brooklyn	+ 3.1	- 7.5	49.9	48.8
Buffalo	+ 2.2	- 5.9	46.6	46.3
Rochester	0	- 7.3	56.1	57.8
Syracuse	+13.2	- 5.2	40.8	41.8
Northern New Jersey	+ 8.0	+ 1.6	42.8	40.9
Bridgeport	+11.9	+ 9.4	37.6	37.6
Elsewhere	+ 5.8	+ 0.9	33.2	35.4
Northern New York State	-21.6	.....	.....	.....
Southern New York State	+ 9.9	.....	.....	.....
Central New York State	+ 4.4	.....	.....	.....
Hudson River Valley District	+ 9.1	.....	.....	.....
Westchester and Stamford	+ 4.9	.....	.....	.....
Niagara Falls	- 3.2	.....	.....	.....
All department stores	+ 4.0	- 6.0	47.0	46.1
Apparel stores	+ 1.8	+ 1.4	41.3	41.0

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

	1938	1939		
	Mar.	Jan.	Feb.	Mar.
Sales, unadjusted	76r	68	71	80
Sales, seasonally adjusted	90r	86	86	91
Stocks, unadjusted	83r	68	72	78
Stocks, seasonally adjusted	83r	75	77	78

r Revised.

FEDERAL RESERVE BANK OF NEW YORK

MONTHLY REVIEW, MAY 1, 1939

Business Conditions in the United States

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

IN APRIL manufacturing production was maintained at about the same rate as in March but mineral production declined, reflecting a sharp reduction in output of bituminous coal pending settlement of negotiations between operators and miners. In the first quarter of this year industrial output, after a rapid rise in the latter half of 1938, increased less than is usual at this season.

PRODUCTION

Volume of industrial production showed little change in March and the Board's seasonally adjusted index remained at 98 per cent of the 1923-1925 average. The index for the first quarter averaged 99, compared with 101 in the final quarter of last year. Activity at steel mills in March was at 54 per cent of capacity, a slightly higher level than in January and February. Automobile production increased less than seasonally; retail sales of cars continued to fluctuate around a level considerably higher than last year but lower than in 1936 and 1937. Dealers' stocks of new cars began to decline in March, following an increase to a seasonally high level. Activity in the machinery industries increased further in March, continuing the rise that began last summer. Lumber production increased less than seasonally from the relatively low level of other recent months.

Production of nondurable goods in March continued at about the level that has prevailed since last autumn. In the woolen textile industry activity showed a decrease from the high level of recent months, while at cotton mills and shoe factories output was maintained in large volume. At meat packing establishments and sugar refineries increases in activity were reported, following earlier declines.

Value of construction contract awards increased in March, according to F. W. Dodge Corporation figures, reflecting a seasonal rise in residential and other private building. Awards for public projects showed little change.

In the first three weeks of April bituminous coal production declined to a low level as most mines were closed, pending the settlement of biennial contract negotiations between mine operators and workers. Steel ingot production was reduced somewhat, averaging about 52 per cent of capacity, and automobile production showed little change from the rate reached in the latter part of March.

DISTRIBUTION

Sales at department stores and mail order houses increased somewhat more than seasonally in March, while variety store sales showed about the usual rise. For the first quarter as a whole retail sales were in about the same volume as in the final quarter of 1938, after allowance for seasonal changes.

Freight car loadings showed less than the customary advance from February to March as loadings of coal declined and shipments of miscellaneous freight increased less than seasonally. In the first half of April there was a marked decrease in freight traffic, reflecting in large part a sharp decline in coal shipments.

COMMODITY PRICES

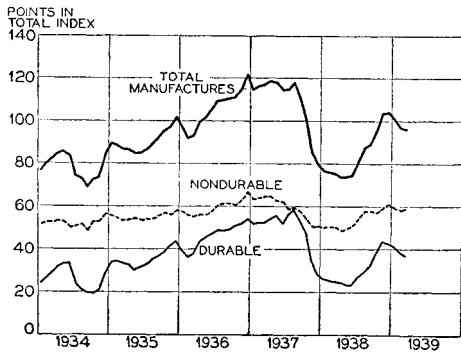
Prices of steel scrap, copper, hides, and some other industrial raw materials declined from the middle of March to the third week of April, and there were decreases also in prices of livestock and dairy products. Silk prices rose considerably. The general level of wholesale prices, as measured by the index of the Bureau of Labor Statistics, declined to 76 per cent of the 1926 average as compared with 77 in the middle of March and at the beginning of the year.

BANK CREDIT

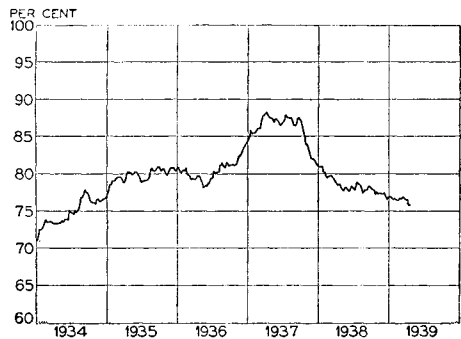
Reflecting continued heavy gold imports and Treasury disbursements from its balances at the Reserve Banks, member bank reserves and deposits increased sharply during the four weeks ended April 19. Excess reserves rose to a record high level of \$4,000,000,000. Total loans and investments at banks in 101 leading cities, which had shown little change during March, increased somewhat during the first three weeks of April, reflecting principally continued purchases of United States Government obligations by New York City banks. Loans to brokers and dealers in securities declined.

MONEY RATES AND SECURITY PRICES

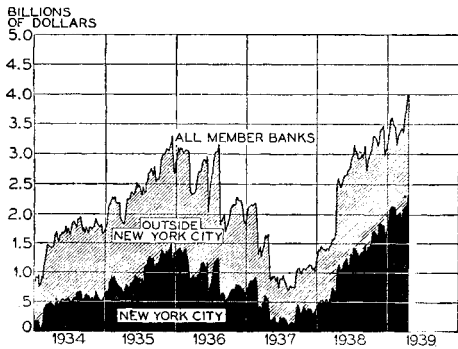
Prices of Government bonds and of other bonds of highest grades continued firm at high levels during March and the first three weeks of April, while prices of the lower grade corporate bonds and of corporate stocks declined. The average discount rate on new issues of 91 day Treasury bills continued at a low level and other open market rates remained unchanged.



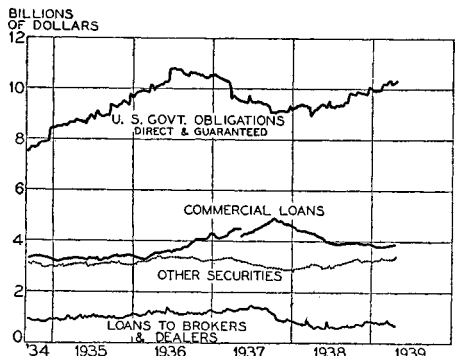
Index of Physical Volume of Manufacturing Production, Adjusted for Seasonal Variation (1923-25 average = 100 per cent; durable and non-durable groups expressed in terms of points in total index)



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



Wednesday Figures of Estimated Excess Reserves of Member Banks (Latest figures are for April 19)



Wednesday Figures for Reporting Member Banks in 101 Leading Cities (Latest figures are for April 19)