MONTHLY REVIEW

of Credit and Business Conditions

Second Federal Reserve District

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

Money Market in June

A noteworthy development in the banking situation during the past month has been the further rise in demand deposits in the weekly reporting member banks. This rise, which carried such deposits to new high levels, was due very largely to increases in the investments of the reporting banks, especially in New York City, whereas a large part of the preceding increase in deposits, since the beginning of this year, was attributable to the inflow of funds from abroad.

In New York City the increase in demand deposits, exclusive of inter-bank deposits, and with adjustments to eliminate duplications arising out of checks and other items in process of collection, now amounts to about $1,000,000,000 since the first week of January. The present level is also more than $1,000,000,000 above the high point reached in March, 1937, and, although exactly comparable figures are not available, is probably more than $3,000,000,000, or about 70 per cent, above the highest point reached in 1929.

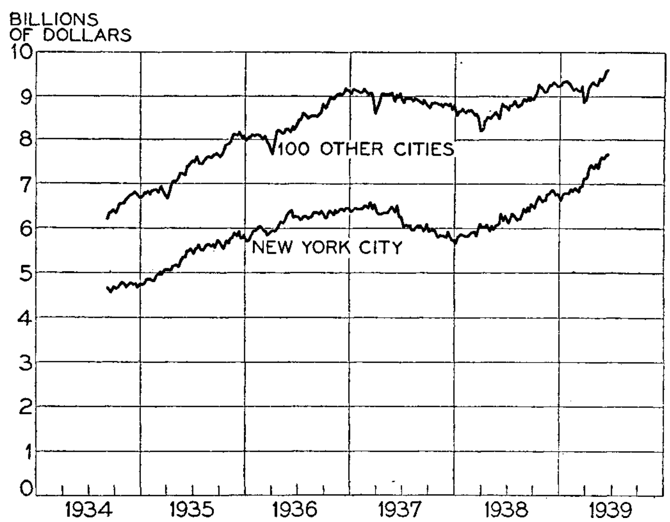
In the 100 other principal cities from which weekly member bank reports are received, the increase this year has been considerably less—somewhat more than $300,000,000—and the increase over the high point of December, 1936 is about $400,000,000. Compared with the high point of 1929, the present level of "adjusted" demand deposits in these cities shows an apparent increase of approximately $2,200,000,000, which, while substantial, is proportionately much less than the increase in New York City—probably about 30 per cent. The greater proportionate increase in New York City is attributable in considerable measure to the accumulation of foreign funds here.

Even after making allowance for idle foreign balances in this country, however, the high level of demand deposits, together with the large amount of currency now in circulation, indicates that the money supply at the present time is far larger than it was ten years ago, when business in this country was at the highest level ever attained.

In the five weeks ended June 28, the increase in total loans and investments of the reporting New York City member banks amounted to $193,000,000, as compared with an increase of only $45,000,000 in adjusted demand deposits. For the whole period, from January 4 to June 28, however, the increase in loans and investments has amounted to $426,000,000, or only about 45 per cent of the increase in deposits. The remainder is fully accounted for by the heavy movement of funds from abroad, representing in part payments for the excess of merchandise exports from this country over imports, but much more largely the transfer of foreign funds to New York, seeking safety here in view of the disturbed conditions in Europe. The latter movement, however, appears to have ended early in May, at least temporarily, and the merchandise export balance of this country has diminished in recent months, so that the influence of incoming foreign funds on the volume of bank deposits here has been materially reduced in recent weeks.

The increase in the earning assets of the New York City banks during the past month continued to be entirely in the investment accounts. Holdings of direct Government obligations, Government guaranteed securities, and other securities (chiefly State and municipal securities) all showed moderate increases. Total loans declined somewhat further, chiefly because of reductions in loans to security brokers and dealers.

In other principal cities, the increase in deposits since the beginning of this year has had no parallel in the volume of loans and investments, which in fact has declined slightly. Total investments of the reporting banks in 100 cities have shown little change, as reductions in holdings of direct Government obligations have



Adjusted Demand Deposits of Weekly Reporting Member Banks in Principal Cities

been practically offset by increases in holdings of Government guaranteed securities, and other security holdings have shown only a small increase. Security loans in these banks as in the case of the New York City banks, have shown some decline, and commercial and industrial loans have shown little net change.

The increase in demand deposits in these banks, therefore, must be attributed entirely to factors other than credit expansion growing out of increased bank loans and investments. Probably the most important factor has been the excess of Government expenditures over receipts, but it is also probable that, to the extent that the gold inflow this year has been associated with payments for this country's merchandise export balance, the proceeds have been widely distributed and a considerable part added to deposits in banks outside New York City.

Largely as the result of an increase in reserve requirements incident to the further rise in deposits, the increase in excess reserves of member banks was checked in June. The inflow of gold from abroad, exclusive of gold placed under earmark, while substantial, was at the lowest rate for any month since last July, and was partly counterbalanced by an increase in foreign central bank deposits in the Federal Reserve Banks, which on June 21 reached a new high level at $354,000,000. Treasury disbursements, including interest payments due June 15 on the public debt, as well as all other ordinary disbursements, were about offset by Treasury receipts, including second quarter income tax payments and the proceeds of a sale by the Reconstruction Finance Corporation of $71,000,000 of San Francisco-Oakland Bay Toll Bridge bonds, in addition to ordinary current revenues.

Some reduction, of a temporary nature, in member bank excess reserves is to be expected during the coming week, as a result of month end and holiday currency demands, but a renewed rise appears to be in prospect after the Fourth of July holiday, due partly to seasonal retirement of currency in circulation and partly to a renewed excess of Government expenditures over receipts.

Money rates at the end of June were little changed from a month previous. Yields on Treasury bonds and notes declined further to new low levels in the early part of the month, but subsequently moved irregularly higher, and at the end of June were slightly above the end of May averages.

Money Rates in New York

	June 30, 1938	May 31, 1939	June 29, 1939
Stock Exchange call loans	1	1	1
Stock Exchange 90 day loans	*1¼	*1¼	*1¼
Prime commercial paper—4-6 months	¾	½-⅝	½-⅝
Bills—90 day unindorsed	7/16	7/16	7/16
Average yield on Treasury notes (3-5 years)	0.67	0.38	#0.45
Average yield on Treasury bonds (more than 12 years to maturity or call date)	2.53	2.13	†2.21
Average rate on latest Treasury bill sale 91 day issue	0.011	0.004	0.005
Federal Reserve Bank of New York rediscount rate	1	1	1
Federal Reserve Bank of New York buying rate for 90 day indorsed bills	½	½	½

*Nominal.

#Change of +0.04 per cent in average yield due to inclusion in the average of the new ¾ per cent Treasury notes of June 15, 1944.

†Change of +0.04 per cent in average yield due to dropping of 2¾ per cent Treasury bonds of 1951-54 from the average because this issue is callable within 12 years.

Government Security Holdings of Federal Reserve Banks

Total Government security holdings of the Federal Reserve Banks, after remaining unchanged since November 24, 1937, showed a reduction of $13,378,000 in the statement for June 28, 1939. This reduction was explained in the following announcement issued on June 29:

> As a result of a reduction in holdings of Treasury bills, this week's statement of condition of Federal Reserve banks shows a decline of $13,378,000 in the System Open Market Account. This is in accordance with action taken by the Federal Open Market Committee on June 21, 1939. For some time past, Treasury bills have been purchased for the System's account at or near a no-yield basis and the account at times has had difficulty in replacing its maturing bills. It was decided that it would serve no useful purpose to continue full replacement of maturing bills, the supply of which is not always equal to the market demand. This action is in response to technical conditions in the bill market and does not represent a change in general credit policy.

Government Securities

On June 1 the Treasury announced that no new money would be borrowed on the June 15 quarter date, but that a 5 year note issue would be offered in exchange for the September 15, 1939 note maturity. On June 5 the formal offering of an issue of ¾ per cent Treasury notes, due June 15, 1944, was made to refund in advance of maturity the $427,000,000 of 1⅜ per cent Treasury notes due September 15, 1939. Under this offering, all but $11,000,000 of the September notes were exchanged.

During the first five days of June prices of Treasury bonds advanced sharply further, as the Treasury announcement that no new issue of Treasury bonds would be offered was contrary to market expectations. The average price of Treasury bonds due or callable after 12 years rose about ⅞ of a point during this period to new high levels, but meanwhile the price of the September 15 notes, which had been selling in the market on the basis of their expected "rights" value for exchange into a new issue of Treasury bonds, broke sharply. Beginning on June 6, however, prices of Treasury bonds turned downward from the high levels reached earlier in the month, and for the days through the 16th a decline of approximately 1 point occurred. Because of the high levels previously reached by Treasury bond quotations, the market was extremely sensitive to slight changes in the volume of demand or offerings during this period, and the decline in prices reflected this situation rather than any material amount of selling pressure. In the subsequent week such offerings as had come into the market earlier in the month disappeared and the investment demand quickened slightly on the whole, with the result that the average price of long term Treasury bonds recovered somewhat, but in the closing days of the month prices declined again to a level about ⅝ of a point below the end of May quotations. During much of the second half of June, there were indications of reluctance on the part of banks to alter their portfolios, in view of the approach of the midyear statement date.

Treasury bill financing during June included the sale of four $100,000,000 weekly issues of 91 day maturities, at average rates which ranged from 0.003 to 0.005 per cent. These issues replaced similar weekly maturities.

Bills and Commercial Paper

The bill market during June again lacked an adequate amount of new acceptances with which to satisfy the existing investment demand and consequently continued inactive. Dealers' quoted rates were unchanged. Outstandings of acceptances at the end of May totaled $247,000,000, a rise of $9,000,000 over a month before, reflecting an expansion in bills drawn to furnish dollar exchange which was an outgrowth of the credit extended early in the month to Brazil through the Export-Import Bank. In most other types of bills seasonal declines were experienced. In the comparison with a year ago also, the influence of the Brazilian credit was evident in the rise in dollar exchange acceptances, and the May, 1939 total showed a smaller decline from a year ago than any similar comparison since November, 1937.

(Millions of dollars)

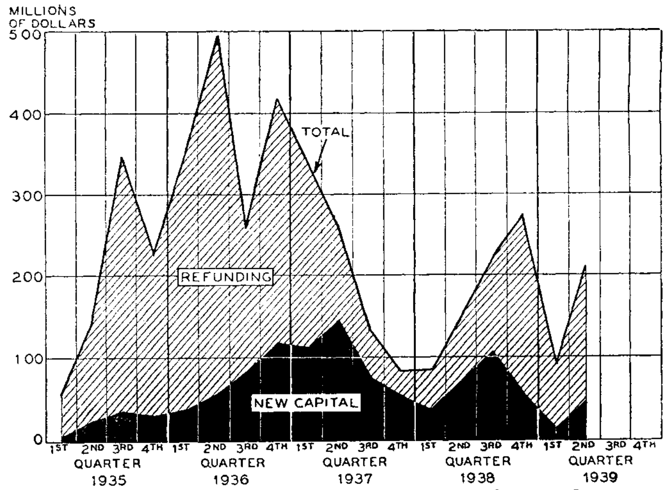
	May 31, 1938	Apr. 29, 1939	May 31, 1939
Import	81	86	82
Export	64	56	51
Domestic shipment	9	8	7
Domestic warehouse credit	49	30	29
Dollar exchange	1	1	19
Based on goods stored in or shipped between foreign countries	64	57	59
Total	268	238	247

The demand for funds in the commercial paper market remained small during June. The concerns borrowing in the open market represented a diversified list of enterprises, including grain milling, where the beginning of the movement of winter wheat led to seasonal borrowing. The new paper that dealers were able to acquire for resale in the open market continued to fall far short of satisfying the active bank investment inquiry. Sales of commercial paper again were made at both ½ and ⅝ per cent. At the end of May a total of $188,500,000 of paper was outstanding through commercial paper houses reporting to this bank. At the end of April the total was $191,900,000 and in May of last year an aggregate amount of $251,200,000 was reported.

New Financing

The flotation in June of a number of fairly large domestic corporate security issues served to increase the rate of activity to the highest level this year. The June total of about $265,000,000 and the monthly average during the second quarter of about $215,000,000 far exceeded the average of $90,000,000 for the first quarter of this year and slightly exceeded the monthly averages for the full years 1937 and 1938. The average for the first half of 1939, however, was below the average levels of recent years.

As has been the case in preceding months, a minor part—some $50,000,000—of the funds obtained in June was for new capital purposes. A considerable portion of the amount for refunding was to refinance at even lower interest rates issues which were floated only a few years ago at rates that then produced savings in interest costs. This further refunding has been made possible by the continued decline in the general level of long term interest rates. Several issues were sold during June at prices to yield the investor less than 3 per cent. The



Average Monthly Volume of Domestic Corporate Security Issues, by Quarters, 1935-1939

larger issues during the past month were:

$50,000,000	Socony-Vacuum Oil Company debenture 3's of 1964 at 104, for refunding
30,000,000	Southern California Edison Company 3¼'s of 1964, placed privately with insurance companies, for refunding
27,300,000	Gulf States Utilities Company first mortgage 3½'s of 1969 at 106¾, for refunding
25,000,000	Bethlehem Steel Corporation consolidated mortgage 3¼'s of 1959 at 99, to replenish working capital
22,000,000	Washington Water Power Company first mortgage 3½'s of 1964 at 105, for refunding
18,000,000	West Texas Utilities Company first mortgage 3¾'s of 1969 at 101¾, for refunding
14,750,000	Central Illinois Electric and Gas Company first mortgage 3¾'s of 1964, at 100½, and
3,000,000	serial debentures of the same company, due 1939-49, to yield 0.75 to 4.00 per cent, both for refunding
13,000,000	New York State Electric and Gas Corporation first mortgage 3¾'s of 1964, at 102, and
6,000,000	5½ per cent preferred stock of the same corporation, both for refunding.

Municipal bond awards in June attained a greater volume than in any month in several years. Awards totaled over $200,000,000. The total includes $71,000,000 of San Francisco-Oakland Bay Toll Bridge bonds sold to dealers by the Reconstruction Finance Corporation. These bonds were reoffered to the public at prices to yield from 0.50 to 3.60 per cent for serial maturities from 1940 to 1964, and at 106, to yield about 3.70 per cent, on the portion of the issue due in 1976. Another $37,000,000 of the total consisted of a number of issues to finance the acquisition of public utility properties in the Tennessee Valley area. An additional $40,000,000 of the municipal awards was for regular refunding purposes. Thus, only about $53,000,000 of the municipal total was for new undertakings.

In the foreign field, \$9,250,000 of Province of New Brunswick 3's of 1944 and 3½'s of 1949 were offered in this market at par. This issue represents the first Canadian Provincial or municipal financing to be registered under the Securities Act of 1933.

The security offerings during the past month were favorably received. In most cases the larger issues were quickly bid up to premiums in the open market, and the few large issues which were given ratings below the grades usually purchased by investment institutions also were successfully distributed.

Security Markets

In response to varying reports on the domestic business situation and developments abroad, stock prices continued to fluctuate irregularly during June, and the volume of trading on the New York Stock Exchange remained at an average daily rate of only 500,000 shares. For the first ten days of the month the net result of the irregular movements was a small net gain in the general average of share prices, but in the remainder of the month the aggregate of daily losses outweighed gains on other days, and prices near the end of June were about 7 per cent lower than at the close of May. Recent quotations for stocks have averaged about 6 per cent above the April lows, but 22 per cent below the November, 1938 highs.

Prices of corporation bonds were firm during most of the past month. Reflective of the movement of high grade issues, Moody's average price of Aaa bonds advanced about one point further to a new high level. Medium grade issues also advanced through the first three weeks of June to show a net gain of one point for this period, according to Moody's average of Baa issues; industrial and railroad bonds registered the largest gains, but public utility bonds also were somewhat higher. In the closing days of the month, however, declines in Baa issues canceled the earlier gains.

Foreign Exchanges

With the exception of a decline in the Netherlands guilder during the first half of the month, quotations for the principal European currencies showed only minor fluctuations during June. The pound-dollar rate ranged between \$4.68⅛ and \$4.68½. Sterling was moderately in demand early in the month, reflecting a partial return flow to London of balances which had taken flight to New York during the preceding period of acute European political tension. Subsequently, the relative demand for dollars and for sterling fluctuated from day to day in response to news of Far Eastern developments, the Senate's refusal to extend the President's power to alter the gold content of the dollar, and renewed apprehension over the European situation. The pound-dollar rate was prevented by official operations from fluctuating materially in response to these varying market tendencies.

Pressure against Dutch exchange during the first half of June resulted in a decline in the guilder rate from \$0.5370 to \$0.5308. This weakness was attributed largely to further reports of disagreement within the Netherlands Cabinet on matters of fiscal policy. In addition, rate movements for both guilders and Swiss francs were somewhat influenced by refunding operations with respect to Dutch and Swiss credits to the French Treasury and railways. Initially, weakness in the guilder was accompanied by some advance in Swiss francs, but this advance was canceled in subsequent dealings. The quotations for French and Belgian exchange remained steady during June, as a sustained, though moderate, market demand for these currencies was met by official gold purchases abroad.

Among the non-European exchanges, the most significant developments of the month occurred in the Shanghai yuan, the Brazilian milreis, and the Mexican peso. The quotation for Shanghai exchange, which had been pegged at 8¼d, was allowed to decline to 6½d on June 8, reportedly as a result of the large drafts which had been made on the British-Chinese Stabilization Fund in meeting the demands for exchange arising from heavy merchandise imports and flight of capital from Japan and North China. Later in the month withdrawals from Chinese banks operating in Shanghai were sharply restricted, and although this action was followed by a brief firming of Shanghai exchange, the rate quickly reverted to the 6½d level.

The recently restored "free" rate for the Brazilian milreis weakened further from the neighborhood of \$0.0530 at the end of May to \$0.0506 on June 22, reflecting the large current commercial demand for foreign exchange.

The possibility that United States Treasury purchases of foreign silver might be discontinued led the Bank of Mexico and other Mexican banks to withdraw from the exchange market on June 27, and quotations for the Mexican peso in the unofficial market thereafter declined considerably. Subsequently, however, it was reported that official support was resumed and some improvement in the rate was shown.

Gold Movement

Gold continued to move to the United States from abroad during June, though in somewhat diminished volume. As in the previous month, a sizable part of the gold imported was placed under earmark at the Federal Reserve Bank of New York for foreign central banks.

Gold imports of all classes at New York in June totaled \$207,500,000, of which \$123,000,000 came from England, \$55,500,000 from Holland, \$16,300,000 from Canada, \$5,600,000 from Switzerland, \$2,700,000 from Mexico, \$2,100,000 from Colombia, \$2,000,000 from India, and \$300,000 from Chile. On the West Coast, \$14,200,000 was received from Japan, \$5,300,000 from Australia, and \$600,000 from China. The amount of gold held under earmark for foreign account by the Federal Reserve Banks increased about \$105,000,000, during June, as compared with an increase of \$250,000,000 in May, and on June 30 amounted to approximately \$1,125,000,000.

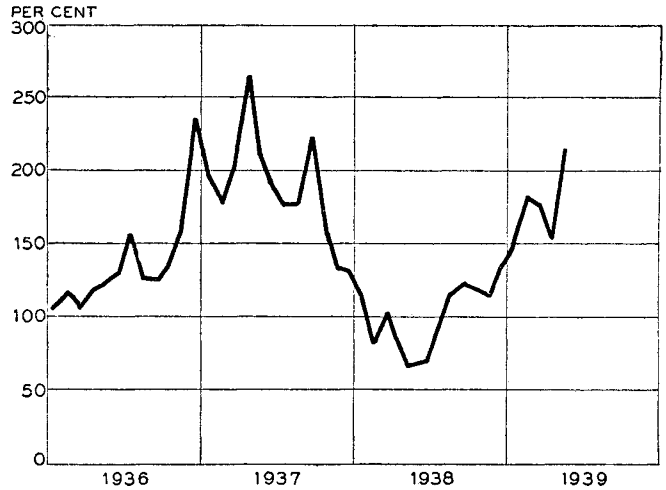
The gold stock of the United States increased about \$150,000,000 during June, as compared with a gain of \$165,000,000 during May, \$530,000,000 during April, and \$385,000,000 during March, reaching a new high figure of approximately \$16,110,000,000 at the end of the month.

Production and Trade

The volume of business activity, which had leveled off in May following declines in earlier months of the year, appears to have turned upward in June. Steel mill activity, responding to orders placed during a period of price concessions in May, ranged between 52 and 55 per cent of capacity in June, compared with an average rate of 48 per cent in May; ordinarily steel production tends to decline in June. Despite the curtailment of automobile production early in the month by a strike at plants of a major producer of car bodies, total assemblies appear to have shown little change from the May level, apparently reflecting a well sustained retail demand for cars. Bituminous coal mining, which had increased sharply in the latter part of May, continued in substantial volume during the first three weeks of June. The announcement of plans for the restriction of cotton print cloth production during the third quarter accounted, in part at least, for substantial sales of cotton goods by the mills, which were reported to have exceeded production during most of June. The generation of electric power and shipments of freight by railway during the first three weeks of the month showed more than the usual seasonal advances.

After allowance for seasonal factors, business activity in May was little changed from the April level. Although there was some further reduction in the output of durable goods, production of nondurable goods was well maintained and railway freight traffic increased. Following the settlement of the labor controversy, bituminous coal production increased sharply in the latter part of the month, and there was a simultaneous increase in steel mill activity which received additional stimulus through heavy buying orders placed during a period of price reductions in the second half of the month. Nevertheless the daily rate of steel ingot production for the month as a whole declined 5½ per cent from the April average, or slightly more than is usual at this time of the year, and the daily rate of pig iron production was reduced 19 per cent. Automobile assemblies declined considerably more than usual between April and May, reflecting in part a well stocked position of dealers, and in part curtailment of operations at some plants owing to strikes in the latter part of the month. The daily rate of mill consumption of cotton was slightly lower than in April, but copper output, electric power generation, and shoe production were little changed after adjustment for seasonal factors, and operations at meat packing establishments advanced considerably more than is usual at this time of the year. The dollar value of machine tool orders advanced sharply in May to the highest level since 1937. To some degree stimulated by the National defense program as well as foreign orders, the volume of machine tool orders has more than tripled in the past twelve months as the accompanying diagram shows.

Some reduction appears to have occurred in department store sales during May, whereas little change was to be expected, considering seasonal factors. There was a rather pronounced decline in chain store sales other than grocery, but chain grocery store sales and mail order house sales showed some increase in May. The daily rate of retail sales of new passenger cars was maintained near the April level.



Index of Machine Tool Orders, Adjusted for Seasonal Variation (1926 average = 100 per cent; data from National Machine Tool Builders' Association)

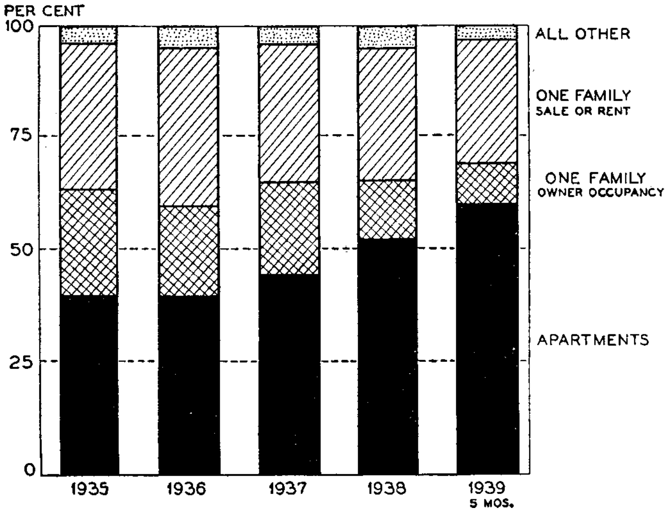
(Adjusted for seasonal variations, for estimated long term trend, and where necessary for price changes)

	1938	1939		
	May	March	April	May
Industrial Production				
Steel	37	66	61	59
Copper	58	75	72	72p
Passenger cars	36	72	62	52
Motor trucks	46	80	72	68
Bituminous coal	62r	82	34	50p
Crude petroleum	83	88	89	88p
Electric power	85r	91	91p	92p
Cement r	55	68	60	..
Cotton consumption	70	95	97	94
Wool consumption	57	113	85	98p
Shoes	99	111	99p	99p
Meat packing	80	90	83	88
Tobacco products	92	91	89	92
Employment				
Employment, manufacturing, U. S.	85	92	92	91p
Employee hours, manufacturing, U. S.	63	74	73	73p
Construction				
Residential building contracts	30	44	37	45
Nonresidential building and engineering contracts	64	53	71	52
Primary Distribution				
Car loadings, merchandise and misc.	69	78	76	77
Car loadings, other	61	72	60	66
Exports	91	88	81	91
Imports	62	71	77	77
Distribution to Consumer				
Department store sales, U. S.	76	86	85	84
Department store sales, 2nd District	74	81	79	78
Chain grocery sales	101	115	114	118p
Other chain store sales	86	88	99	93
Mail order house sales	90	99r	102r	106
New passenger car registrations	44r	69	69p	67p
*Velocity of Deposits**				
Velocity of demand deposits, outside New York City (1919-25 average = 100)	61	60	59	60
Velocity of demand deposits, New York City (1919-25 average = 100)	38	36	31	32
*Prices and Wages**				
General price level (1913 average = 100)	152	153r	152p	152p
Cost of living (1913 average = 100)	148	146	146	146
Wage rates (1926 average = 100)	111	111	111p	111p

p Preliminary. r Revised. * Not adjusted for trend.

Building

Owing to the inclusion of contracts for several large scale housing developments in the New York and Northern New Jersey area during May, there was a 62 per cent



Percentage Distribution of Principal Types of Residential Building Contracts in the New York and Northern New Jersey and Up-State New York Area (Based on F. W. Dodge Corporation data; monthly averages for years 1935-38 and first 5 months of 1939)

increase over April in the daily average rate of residential building contract awards in this area, according to figures compiled by the F. W. Dodge Corporation. However, decreases in most other types of construction offset the increase in residential building, so that construction as a whole showed little change from the April average. Compared with a year ago, residential building contracts were more than doubled, although total construction contracts were reduced nearly 25 per cent, owing mainly to an exceptionally large decrease in public utility contracts which both in May, 1938 and in April of this year had been considerably enlarged by awards on a water supply project for New York City.

The accompanying diagram illustrates the tendency in the area corresponding approximately with the Second Federal Reserve District for apartment house construction to constitute an increasingly larger part of residential building; the proportion rose from 40 per cent in 1935 to 60 per cent in the first five months of 1939, owing only in minor degree to slum clearance housing projects, under the supervision of the United States Housing Authority. Contracts for one family houses constructed for sale or rent have constituted around 30 per cent of the total throughout the period, while the proportion of awards for owner-occupied houses has fallen from about one-fourth of the total in 1935 to 9 per cent in the first five months of this year. In terms of dollar value, however, recent monthly contract awards for owner-occupied houses have been at about the same average level as in 1935, although well below the 1936 and 1937 levels. Contracts for one family houses for sale or rent are more than two and a half times as large as in 1935 and apartment house contracts have quadrupled. Residential building of all kinds this year has been approximately three times the 1935 monthly average in value.

Total construction contracts awarded during May in the 37 States included in the F. W. Dodge Corporation survey were at a daily rate 7 per cent below the April average. The decrease from the previous month occurred despite a contraseasonal increase in residential building contracts of 17 per cent. Awards for heavy engineering projects in the 37 States showed a 19 per cent decline from the comparatively large April volume, and other types of construction were reduced in somewhat similar proportions. A slight increase over a year ago in total construction was due chiefly to a gain in residential building, which amounted to 55 per cent.

Percentage Change in Average Daily Contracts

	N.Y. and Northern N.J. May, 1939 compared with		37 States May, 1939 compared with	
	Apr., 1939	May, 1938	Apr., 1939	May, 1938
Building				
Residential	+62	+107	+17	+ 55
Commercial and industrial	— 9	+ 13	—16	+ 12
Public purpose*	—26	— 33	—21	— 15
All building	+19	+ 31	+ 1	+ 26
Engineering				
Public works	+16	— 17	—11	— 7
Public utilities	—94	— 98	—38	— 52
All engineering	—44	— 73	—19	— 23
All construction	— 1	— 24	— 7	+ 5

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

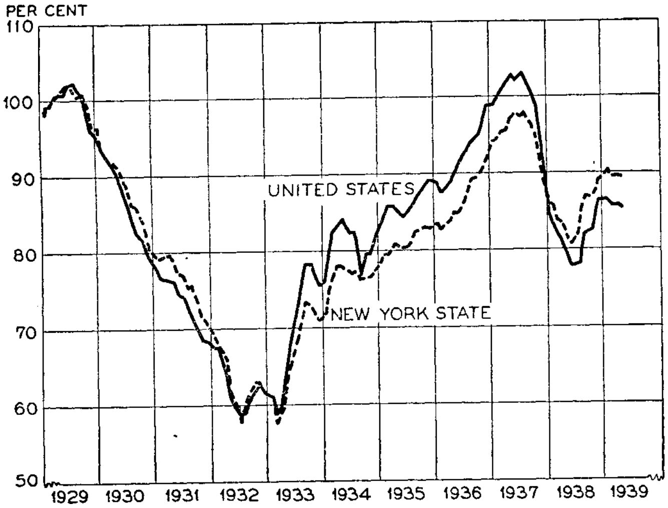
For the first three weeks of June, construction contract awards in the 37 States showed a further reduction, owing to decreases from the May rate of 25 per cent in both residential building and heavy engineering projects. Compared with the corresponding period in June, 1938, however, total construction registered a 5 per cent increase, reflecting a gain of 26 per cent in residential building, offset in part by small declines in nonresidential building and heavy engineering contracts.

Employment and Payrolls

Despite a decline in United States factory employment in May the total number of workers in all nonagricultural pursuits increased by approximately 180,000 persons, according to the Secretary of Labor. The return of about 80,000 bituminous coal miners to work between mid-April and mid-May following the settlement of the labor controversy, and a substantial increase in employment in both private and public construction, contributed materially to the advance. A further large increase in bituminous coal employment undoubtedly occurred after the May 15 payroll period covered by the Department of Labor's estimates.

The decrease in factory employment from April to May was slightly greater than usual, and wage disbursements, which ordinarily are little changed between these months, were reduced somewhat. Labor difficulties, which resulted in a reduction in the number of workers at some automobile plants, together with somewhat more than the usual reductions in the shoe, women's clothing, and cotton goods industries, accounted in part for the larger than seasonal decline in factory employment in May.

Declines of slightly more than the usual proportions also occurred in New York State factory employment and payrolls between the middle of April and the middle of May. Reductions in the number of workers were reported by the majority of industries and employment was lower



Indexes of Factory Employment in the United States and in New York State, Adjusted for Seasonal Variation (1929 = 100 per cent)

in all of the principal industrial districts of the State. As in the preceding month, however, the most pronounced declines occurred in the apparel industries where employment ordinarily decreases at this time of year. Compared with May, 1938, employment was 10 per cent higher and payrolls were 15½ per cent larger.

In the accompanying diagram changes in factory employment in the United States and in New York are compared for the period from 1929 to date. In the period of drastic employment reduction extending from the latter part of 1929 to the low levels of 1932 and 1933 the employment indexes for both areas moved approximately parallel to each other, but in the subsequent recovery up to the middle of 1937 New York State showed a smaller increase in employment than the country as a whole. By July, 1937 employment in the United States had advanced to a point slightly above the 1929 average while New York employment failed to reach the level prevailing in 1929. Owing to a less severe decline in employment in New York State from the middle of 1937 to the middle of 1938 the relative positions of the indexes were reversed and currently employment in this State stands at a higher level relative to the 1929 average than is the case for the entire country. The fact that New York employment has shown more moderate fluctuations throughout most of the period under review is apparently due in part to the importance in this State of the clothing and other consumer goods industries.

Foreign Trade

Merchandise exports from the United States during May were valued at $249,000,000, a gain of 8 per cent over April, which is contrary to the usual seasonal movement between these two months. In the case of imports, which were valued at $203,000,000, the rise of 9 per cent from the April figure was about in accordance with seasonal expectations. Compared with May, 1938, exports were 3 per cent lower, while imports were 37 per cent larger. The excess of exports therefore was reduced to $47,000,000 in May of this year from $109,000,000 a year ago, but was substantially the same as in April.

Exports of crude foodstuffs during May registered a decline in value of 68 per cent from the comparatively large figure a year ago, and shipments of crude materials were reduced 13 per cent. Meanwhile, however, exports of wholly and partly finished products showed sizable increases. Among the imports large advances compared with May, 1938, occurred in all the major groups, except manufactured foodstuffs, the increases ranging from 20 per cent for finished manufactures to 55 per cent for crude materials. For the first five months of this year, all the principal classifications of exports except manufactured foodstuffs registered decreases from the corresponding period in 1938, while imports of all types excepting manufactured foodstuffs were larger in value than in the comparable 1938 period.

	Dollar value (in millions) May, 1939		Percentage change			
			May, 1939 compared with May, 1938		Jan.-May, 1939 compared with Jan.-May, 1938	
	Exports*	Imports**	Exports	Imports	Exports	Imports
Crude materials.........	30.2	62.3	−12.9	+54.7	−30.5	+19.3
Crude foodstuffs.........	10.8	25.9	−68.3	+32.4	−53.7	+17.1
Manufactured foodstuffs..	16.1	26.1	+14.9	− 0.4	+ 6.4	−15.1
Semimanufactures.......	48.3	39.8	+11.7	+43.7	− 7.3	+24.8
Finished manufactures...	140.5	40.1	+10.1	+20.0	− 3.1	+10.4
Total.............	245.9	194.2	− 3.1	+32.0	−13.2	+12.4

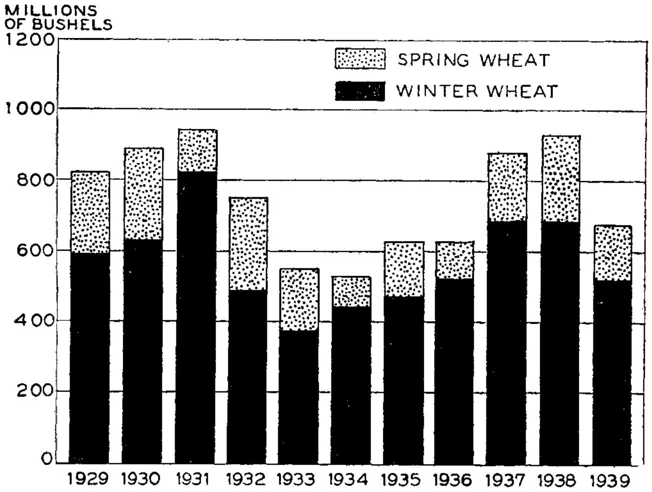
*Domestic exports only.
**Imports for consumption only.

With respect to exports of individual commodities during May, large decreases from a year ago continued to be reported in grain shipments, and exports of cotton and coal continued substantially lower both in quantity and in value. On the other hand, exports of American aircraft again increased, and exports of automobiles, copper, metal-working machinery, petroleum products, and manufactures of rubber and tobacco were materially larger than a year ago. Among the leading import commodities, increases over May, 1938 were fairly general, the chief exceptions being substantial declines in receipts of sugar and of rough, uncut diamonds, the latter accompanied by a large increase in imports of cut diamonds. Imports of cocoa and wool were about five times as large as the small quantities received a year ago, and imports of nickel and crude petroleum were twice as large. Substantial gains occurred also in the volume of imports of hides and skins, rubber, tin, and unmanufactured tobacco. Raw silk imports were substantially the same in quantity as a year ago, but owing to the price rise showed an increase of about 35 per cent in value.

Commodity Prices

Declines in grain prices and increases in quotations for certain industrial raw materials predominated in the wholesale commodity markets during June.

Following the sizable advance in May, wheat prices moved lower during June, owing largely to favorable weather for the growing spring crop and to gradually increasing receipts of new winter wheat at Southwestern points. After equaling the season's high of 87⅜ cents a bushel on June 1, the cash quotation for spring wheat at Minneapolis declined 6⅛ cents to 81¼ cents a bushel, canceling two-thirds of the May advance, and winter wheat at Kansas City dropped 8¾ cents to 76⅜ cents a bushel. The Government June 1 crop report, released



Annual Harvests of Winter and Spring Wheat, 1929-1938, and Department of Agriculture Estimate of 1939 Wheat Production Based on June 1 Conditions

at the close of business June 9, placed the winter crop at 523,431,000 bushels, and spring wheat production between 145,000,000 and 170,000,000 bushels. As the accompanying diagram indicates, without allowance for the effect of favorable weather since June 1, the estimated total 1939 wheat crop is considerably smaller than those of the two preceding years and is also below the 1928-37 average of 752,952,000 bushels. This year's crop is considered about equal to average domestic requirements. Cash corn declined 3 cents to 49⅜ cents a bushel during June.

Silk eased to $2.51½ a pound, owing in part to a decrease in mill consumption, and rubber was slightly lower at 16½ cents a pound. Cotton prices, however, reached higher levels for the year during June. Rainfall detrimental to the growing crop, active demand for cotton textiles, the possible impounding of 600,000 bales of the staple through the Anglo-American agreement to exchange cotton for rubber, and passage by the House of Representatives of the parity payment and surplus removal appropriations all contributed to the rise. On June 8 spot cotton in New York reached 10 cents a pound, the highest since August, 1937, but subsequently the quotation receded to 9.83 cents, virtually unchanged since the end of May. The quotation for the October contract advanced over ½ cent to 8.82 cents a pound on June 27 and thereafter receded slightly.

Among the metals, scrap steel at Pittsburgh closed the month at $15.25 a ton, up 87½ cents from the end of May, and the price at Chicago showed a net gain of 37½ cents to $13.37½ a ton. Following a rise on the London Metal Exchange, lead advanced 10 points in New York to 4.85 cents a pound, while tin showed no net change, despite an increase in the export quota for the third quarter from 40 to 45 per cent of "standard" production.

Department Store Trade

For the three weeks ended June 24, department store sales in this District were about 3½ per cent higher than in the corresponding period of 1938, and a gain over the May daily rate of sales was indicated, whereas usually there is little change between the two months.

In May, total sales of the reporting department stores in this District were 8.3 per cent higher than last year, but about half of the increase was due to one more business day than in May, 1938. Stores in most localities reported moderate increases in average daily sales over a year ago, but for the District as a whole department store sales showed a more than seasonal decline compared with April. May sales of the leading apparel stores in this District were 4.8 per cent higher than last year, but on an average daily basis the increase was quite small.

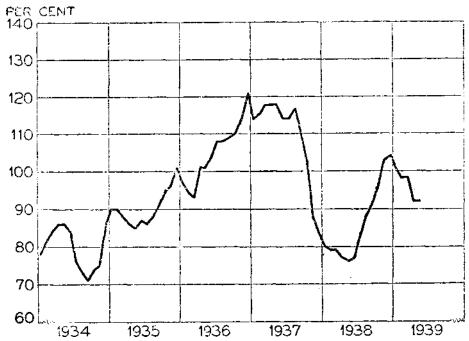
Stocks of merchandise on hand in the department stores, at retail valuation, were about 5 per cent lower at the end of May, 1939 than a year previous, and apparel store stocks were approximately 2 per cent lower.

Locality	Percentage change May, 1939 compared with May, 1938		Per cent of accounts outstanding April 30 collected in May	
	Net sales	Stock on hand end of month	1938	1939
New York and Brooklyn	+ 6.5	— 5.9	49.7	48.2
Buffalo	+11.4	— 4.1	43.0	45.7
Rochester	+11.3	— 3.9	54.1	56.7
Syracuse	+15.0	— 2.3	40.4	40.1
Northern New Jersey	+12.1	— 4.7	42.5	40.8
Bridgeport	+10.6	+ 3.1	40.3	41.1
Elsewhere	+13.7	+ 0.2	32.4	34.4
Northern New York State	— 1.5	......	....	....
Southern New York State	+15.4	......	....	....
Central New York State	+11.4	......	....	....
Hudson River Valley District	+15.6	......	....	....
Westchester and Stamford	+16.8	......	....	....
Niagara Falls	+ 7.4	......	....	....
All department stores	+ 8.3	— 5.1	46.3	45.6
Apparel stores	+ 4.8	— 1.8	45.2	46.2

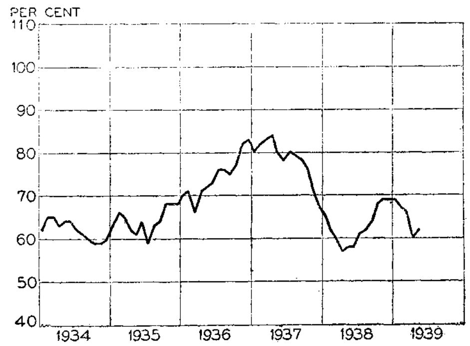
Department Store Sales and Stocks, Second Federal Reserve District
(1923-25 average = 100)

	1938	1939		
	May	March	April	May
Sales, unadjusted	81	80	86	85
Sales, seasonally adjusted	84	91	89	88
Stocks, unadjusted	83r	78	78	78
Stocks, seasonally adjusted	81r	78	77	76

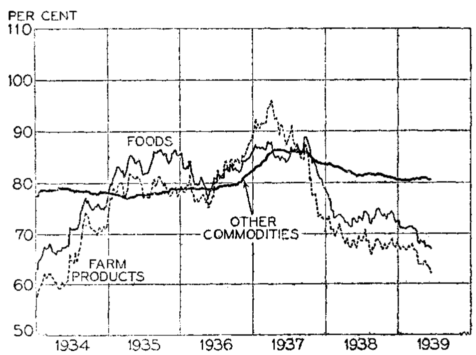
Classification	Net sales percentage change May, 1939 compared with May, 1938	Stock on hand percentage change May 31, 1939 compared with May 31, 1938
Shoes	+16.0	—10.0
Home furnishings	+10.6	— 5.8
Silverware and jewelry	+10.4	+13.4
Women's ready-to-wear accessories	+ 8.9	—11.4
Men's furnishings	+ 8.7	—10.7
Men's and Boys' wear	+ 8.0	— 9.3
Women's and Misses' ready-to-wear	+ 7.4	— 9.2
Furniture	+ 7.3	—10.8
Hosiery	+ 4.1	+ 6.6
Luggage and other leather goods	+ 3.7	— 7.6
Books and stationery	— 0.8	— 4.8
Linens and handkerchiefs	— 0.9	—10.3
Toys and sporting goods	— 2.9	+ 2.5
Musical instruments and radio	— 3.6	+14.6
Toilet articles and drugs	— 4.3	+ 2.7
Silks and velvets	— 7.4	— 5.2
Cotton goods	—13.7	—12.3
Woolen goods	—17.8	— 1.8
Miscellaneous	+ 8.3	+ 0.1



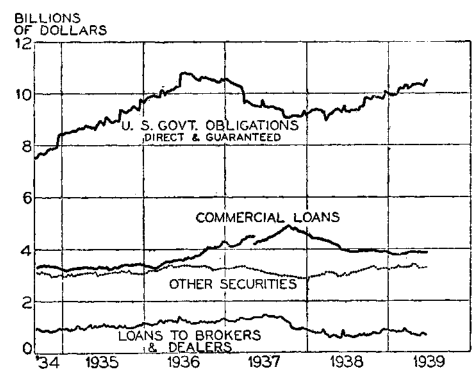
Index of Physical Volume of Industrial Production, Adjusted for Seasonal Variation (1923-25 average = 100 per cent)



Index of Total Loadings of Revenue Freight, Adjusted for Seasonal Variation (1923-25 average = 100 per cent)



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



Wednesday Figures for Reporting Member Banks in 101 Leading Cities (Latest figures are for June 14)

Business Conditions in the United States

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

Industrial production, which had been receding on a seasonally adjusted basis during the first four months of this year, showed little change in May and increased considerably in the first three weeks of June. The advance reflected principally larger output of steel and coal, which had previously shown considerable declines.

Production and Employment

In May the Board's seasonally adjusted index of industrial production was at 92 per cent of the 1923-1925 average, the same as in April. Volume of manufacturing production declined somewhat further, owing chiefly to reductions in output of steel and automobiles, but mineral production increased as most bituminous coal mines were reopened after the middle of the month.

Steel ingot production, which had been at an average rate of 52 per cent of capacity in April, declined to 45 per cent in the third week of May. About this time prices of some types of steel were reduced considerably and orders were placed in substantial volume. Subsequently steel output increased and the current rate is about 55 per cent of capacity, approximately the level maintained during the first quarter of this year.

In the automobile industry output was reduced by about one fifth at the beginning of May, and in the latter part of the month there was further curtailment partly as a result of a strike at a body plant which led to the closing of most assembly lines of one major producer. In the early part of June the strike was settled and by the middle of the month output had risen to a level higher than that prevailing during most of May. Lumber production increased further in May following less than the usual seasonal rise during the first quarter of this year.

Output of nondurable manufactures in the aggregate was at about the same rate in May as in April. At woolen mills activity increased sharply, following a decline in April, and at cotton and rayon mills output was maintained. Mill consumption of raw silk showed a further sharp decline. At meat packing establishments output increased more than seasonally, and as in March and April was considerably larger than a year ago, reflecting a sharp increase in the number of hogs slaughtered. Flour production continued in larger volume than is usual at this season, while at sugar refineries there was a decrease in output.

Mineral production increased in May owing chiefly to the reopening of most bituminous coal mines. Anthracite production, which had been in large volume in April, declined in May, while output of crude petroleum increased somewhat further.

Value of residential building contracts, which had shown a considerable decline in April, increased in May, according to figures of the F. W. Dodge Corporation. Public residential awards were higher owing to a greater volume of United States Housing Authority projects; private awards also increased but on a seasonally adjusted basis were below the high level reached in February and March. Contracts for both public and private nonresidential construction declined in May, following increases in the preceding two months.

Factory employment and pay rolls showed little change from the middle of April to the middle of May, according to reports for a number of States.

Distribution and Commodity Prices

Department store sales declined from April to May, while sales at variety stores and by mail order houses showed little change. In the first two weeks of June department store sales increased.

Freight car loadings increased in the latter half of May, reflecting chiefly expansion in coal shipments. In the first half of June loadings of coal increased further and shipments of other classes of freight also were in larger volume.

Prices of industrial materials, such as steel scrap, hides, wool, and print cloths, advanced somewhat from the middle of May to the third week of June. Wheat, silk, and coal prices declined early in June, following increases in May, and there were further declines in prices of livestock and meats.

Bank Credit and Money Rates

During the four weeks ended June 14 total loans and investments at member banks in 101 leading cities increased by $270,000,000, following a decline of $200,000,000 in the preceding four weeks. The major increase was in holdings of Treasury notes and bonds at New York City banks. Demand deposits increased sharply to new high levels both in New York and in the leading cities outside New York.

During the first three weeks of June excess reserves of member banks showed little change from the new high level of $4,300,000,000 reached on May 24. Continued gold imports largely went into earmarked gold and into balances held for foreign account at the Federal Reserve Banks.

Prices of United States Government securities, which had advanced sharply from April 11 to June 5, reaching a new high level, eased slightly during the next two weeks. The yield on the longest term Treasury bond outstanding declined from 2.49 per cent on April 11 to 2.26 per cent on June 5 and increased to 2.32 per cent on June 19. Other money rates showed little change.