

MONTHLY REVIEW

of Credit and Business Conditions

Second Federal Reserve District

Federal Reserve Bank, New York

August 1, 1939

Money Market in July

Excess reserves of member banks rose to new high levels in July, both in New York City and in the country as a whole, despite further increases in the reserve requirements of the banks, accompanying continued growth in their deposits, and some reduction in the volume of Government securities held by Federal Reserve Banks. Disbursements of funds by the Government were the largest factor in the further expansion of member bank reserves, but a continued moderate inflow of gold and disbursement from foreign central bank deposits with Federal Reserve Banks, also were contributing factors.

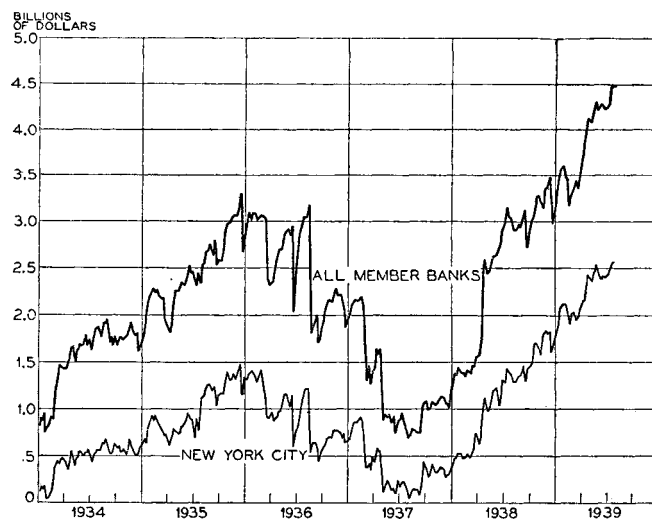
As Treasury balances in the Federal Reserve Banks have not been enlarged by sales of new securities (except by sales of United States savings bonds) in several months, and as Government expenditures have continued to exceed current revenues by substantial amounts, the total amount of Treasury balances in the Reserve Banks and cash in the Treasury has been reduced fairly steadily since the middle of February. The sum of the items "Treasury cash" and "Treasury deposits with Federal Reserve Banks", which are currently reported in weekly statements issued by the Board of Governors of the Federal Reserve System, after reaching a maximum of \$4,021,000,000 on February 15, declined to \$3,521,000,000 on June 28, and was reduced further to \$3,248,000,000 on July 26. The disbursement of these funds has tended to increase member bank reserves accordingly.

Owing to the fact that a large part of the increase in bank reserves during the past two months has been due to this factor, most of the net gain in excess reserves since the previous peak was reached on May 24 has occurred outside New York City. On July 26 the amount of excess reserves held by New York City banks was \$2,558,000,000, an increase of only \$30,000,000 since May 24, whereas the amount held by all other member banks showed an increase of \$150,000,000 during the same period to about \$1,930,000,000 on July 26. The funds paid out by the Treasury for Government expenditures are widely distributed throughout the country, whereas the inflow of foreign funds, which accounted for much of the increase in excess reserves during the critical period in European political affairs in the spring, was largely concentrated in New York City. The New York City member banks, however, continue to hold a substantially larger proportionate volume of excess reserves, relative to their reserve requirements, than banks in other parts of the country, owing partly to the large accumulation of for-

ign funds in New York City, and partly to the unprecedented volume of idle funds of banks in other localities that are now on deposit with the New York City banks.

Gold continued to flow to this country in fairly large volume during the past month, but, as in June, a considerable part was placed under earmark at this bank on arrival for the accounts of foreign central banks, and therefore had no effect on bank reserves in this country. Nevertheless, the gold stock of the United States increased about \$130,000,000 further in the four weeks ended July 26 to a new high level. The amount of gold held under earmark for foreign accounts at this bank rose about \$170,000,000 further during the month of July, and also reached a new high level. During the four weeks ended July 26, however, deposits of foreign central banks with Federal Reserve Banks were reduced \$63,000,000.

The amount of currency outstanding in the United States has shown a seasonal decrease following a substantial seasonal rise over the June month end and Fourth of July holiday, but remains at a high level. Ordinarily the amount of currency outstanding on the last Wednesday of July is at approximately the lowest level of the year, but this year it remained about \$380,000,000 above the seasonal low point at the end of January, apparently reflecting in part the unusual for-



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

eign demands for United States currency during late winter and early spring, and in part a continuation of the upward trend in the volume of currency in use in this country.

Federal Reserve Bank holdings of Treasury bills were reduced \$76,000,000 in the five weeks ended July 26, as maturing bills in the Federal Open Market Account were replaced only in part by purchases of new bills in the market, in accordance with the statement issued on June 29. This reduction had the effect of offsetting, only to a small extent, the increases in member bank reserves from other sources.

MONEY RATES

The increasing volume of idle funds available for employment was reflected in some decline in yields on Treasury bonds and Treasury notes during the past month. Yields on the highest grade corporation securities also held at about the lowest levels in many years. A slight rise in yields on Treasury bills accompanied the increased supply of such bills available to the market, which resulted from the reduction in Federal Reserve Bank holdings of such bills, but yields on these securities remained almost infinitesimal. To illustrate, the average yield on new Treasury bills sold during July at no time reached a level sufficiently high so that an investment of \$10,000 in the bills for three months would produce income of as much as 50 cents. Other money rates remained at the previous low levels.

Money Rates in New York

	July 30, 1938	June 30, 1939	July 28, 1939
Stock Exchange call loans.....	1 $\frac{1}{4}$	1 $\frac{1}{4}$	1 $\frac{1}{4}$
Stock Exchange 90 day loans.....	*1 $\frac{1}{4}$	*1 $\frac{1}{4}$	*1 $\frac{1}{4}$
Prime commercial paper—4-6 months..	$\frac{3}{4}$	$\frac{1}{2}$ - $\frac{5}{8}$	$\frac{1}{2}$ - $\frac{5}{8}$
Bills—90 day undorsed.....	$\frac{1}{16}$	$\frac{1}{16}$	$\frac{1}{16}$
Average yield on Treasury notes (3-5 years).....	0.70	0.48	0.43
Average yield on Treasury bonds (more than 12 years to maturity or call date)	2.51	2.21	2.13
Average rate on latest Treasury bill sale 91 day issue.....	0.059	0.005	0.019
Federal Reserve Bank of New York rediscount rate.....	1	1	1
Federal Reserve Bank of New York buying rate for 90 day indorsed bills	$\frac{1}{2}$	$\frac{1}{2}$	$\frac{1}{2}$

* Nominal.

MEMBER BANK CREDIT

Total loans and investments of the reporting member banks continued to increase moderately during the past month. Commercial loans increased rather generally in reporting banks during the past month, about a month in advance of the usual seasonal upturn. At least part of the increase appears to have been due to the placing of additional loans of longer maturities than ordinary commercial loans. In some cases the "term loans" were reported to have been obtained for the purpose of retiring outstanding corporation securities, rather than to supply additional working capital, but on the other hand, a few instances were reported in which at least part of the proceeds of new securities sold during July was to be used to repay bank loans.

A considerable part of the increase in total loans and investments of weekly reporting banks in 100 principal cities other than New York in the first three weeks of July was due to an increase in investments, chiefly in Treasury bills, but to some extent in Treasury notes and

bonds. Most of the increase in investments was in Chicago banks.

The rise in excess reserves of member banks during the past month has been accompanied by an even larger rise in demand deposits in reporting member banks, which also reached new high levels in New York City and in other leading cities. The principal contributing factors apparently were Government expenditures, and increased loans and investments.

GOVERNMENT SECURITIES

After declining slightly further in the opening days of July, prices of Government bonds rose sharply in the week following the Fourth of July holiday, reflecting a moderate revival of investment demand, especially for the longer issues, and a lack of any substantial offerings. Between July 3 and July 10 the average price of Treasury bonds maturing or callable after twelve years rose a full point, thus regaining much of the ground lost in the latter part of June. Following this rapid advance, activity in the market subsided and prices sagged slightly until the 20th, when a renewed rise began. Near the close of the month the average yield on the five longest term Treasury bonds was down to 2.13 per cent as compared with 2.21 per cent at the end of June, and was thus within a few points of the lowest level that has been reached so far. Trading in Treasury notes was quiet, but prices advanced gradually during the month, and yields declined correspondingly.

The only direct Treasury financing during July again consisted of weekly offerings of \$100,000,000 of 91 day Treasury bills to replace maturities of corresponding amount. Apparently as a result of the increased supply of Treasury bills available to the market, incident to the reduction in Treasury bill holdings of Federal Reserve Banks, the average rates at which Treasury bills were sold during July rose slightly, ranging from 0.012 to 0.019 per cent. On July 24 the Treasury, on behalf of the Commodity Credit Corporation, offered \$200,000,000 of Commodity Credit Corporation $\frac{5}{8}$ per cent notes due August 1, 1941. The proceeds of these notes, which are fully guaranteed by the United States, will be used to pay off corn, cotton, and wheat notes that may be presented for payment by banks beginning July 31.

COMMERCIAL PAPER AND BILLS

The range of rates for average grade prime 4 to 6 month commercial paper continued to be $\frac{1}{2}$ - $\frac{5}{8}$ per cent during July, with somewhat the larger volume of transactions at the lower quotation. Dealers reported that their acquisitions of paper again were in very small proportions relative to the large amounts for which banking investors continued to inquire. The June 30 total of paper outstanding through reporting commercial houses was \$180,700,000 as compared with the May 31 total of \$188,500,000; a year ago outstandings were \$225,300,000.

Activity in the discount market for bills during July continued to be restricted to small proportions by reason of the limited amounts of acceptances released by acceptors to dealers for resale in the open market. Investment demand remained active and largely unfilled. Dealers' offering rates continued at levels previously quoted. The total volume of acceptances outstanding at

the end of June was \$245,000,000 or approximately the same as at the end of May. Some further decrease occurred in export bills but slight increases in most of the other classifications largely offset this decline. The decline from a year ago in bills outstanding diminished slightly further in June.

(Millions of dollars)

Type of acceptance	June 30, 1938	May 31, 1939	June 30, 1939
Import.....	79	82	82
Export.....	63	51	45
Domestic shipment.....	9	7	8
Domestic warehouse credit.....	49	29	30
Dollar exchange.....	1	19	20
Based on goods stored in or shipped between foreign countries.....	63	59	60
Total.....	264	247	245

Security Markets

Stock prices in July registered the strongest advance for any month since June, 1938. Trading during the first ten days of the month was exceptionally dull, on no day during that period exceeding 500,000 shares on the New York Stock Exchange, and on the day before the Fourth of July holiday declining to 240,000 shares, the smallest volume for any full day in many years. Prices in this part of the month, however, were moderately firm, and in the following week rose substantially, accompanying a rapid increase in the volume of trading, which on July 17 and 18 was not far short of 2,000,000 shares a day. Subsequently trading activity diminished somewhat, but for the latter half of the month averaged more than 1,000,000 shares a day. After a particularly strong rise on the 17th, price movements became somewhat irregular, but on the whole there were further small gains. Near the close of July the average level of stock prices was about 13 per cent higher than at the end of June, and 19 per cent above the lowest level of the year, reached early in April. It remained, however, about 8 per cent below the highest point of the year, reached early in January.

While the largest gains, in number of points, occurred in industrial stocks, the largest percentage rise was in railroad shares. Public utility stocks also advanced substantially, and near the end of July were close to the highest levels of the year.

The principal feature of the domestic corporation bond market was a sizable advance in medium and lower grade issues, especially in railroad bonds. Highest grade corporation bonds also advanced moderately in the early part of the month, accompanying the rise in Treasury bonds, but sagged somewhat in the third week of July, and at the close of the month showed average gains of only about $\frac{1}{4}$ point over closing prices at the end of June.

New Financing

As in June, new security issues during July included a large volume of domestic corporate security flotations. The offering of several fairly large issues again accounted for a substantial portion of the total, which, next to the June volume, was the largest monthly total of this year, amounting to \$215,000,000. While a large part of the proceeds was to be used for refunding, some increase occurred in the amount to be devoted to other purposes.

There were a number of preferred stock offerings, and aggregate stock issues expanded from \$11,000,000 in June to \$42,000,000 in July, the largest total since the April figure of \$54,000,000. The larger corporate securities issues during July were:

- \$85,000,000 Shell Union Oil Corp. debenture 2 $\frac{1}{2}$'s of 1954, at 97 $\frac{3}{4}$, for refunding
- \$32,700,000 West Penn Power Co. 4 $\frac{1}{2}$ per cent preferred stock, at 110—subject to prior rights of stockholders—for refunding
- \$26,500,000 Kansas Power and Light Co. 3 $\frac{1}{2}$ per cent bonds of 1969, at 108 $\frac{1}{2}$, for refunding
- \$25,000,000 Southern Bell Telephone and Telegraph Co. debenture 3's of 1979—\$22,250,000, offered publicly at 107 $\frac{1}{2}$, and \$2,750,000 sold to the trustee of the pension funds of the Bell System at 106—\$20,000,000 to repay advances from the American Telephone and Telegraph Co., remainder working capital.

Municipal bond awards totaled only \$75,000,000 in July, following the large total of \$192,000,000 in June. City of New York issues of \$35,000,000, including 2 $\frac{3}{4}$ serial bonds of 1940-79, 4 per cent serial bonds of 1940-54, and 2 $\frac{3}{4}$ per cent corporate stock of 1969, constituted nearly one-half of the offerings. These securities were disposed of within a few hours by the syndicate at prices to yield the investor from 0.30 to 2.85 per cent, depending upon maturity.

Following closely upon last month's New Brunswick issue, the Province of Quebec entered the United States security market in July, the second Canadian Province to register under the Securities Act of 1933. The securities included \$20,000,000 of 3 per cent serials of 1940-59, and \$10,000,000 of 3 $\frac{1}{4}$ per cent bonds of 1953.

The month of August promises to be an active one, according to registrations that are scheduled to become effective during the month. Heading the list are the Pennsylvania Power and Light Company bonds and debentures aggregating \$123,500,000, which would be one of the largest power and light refunding operations in several years. The registration is scheduled to become effective on August 9.

Foreign Exchanges

With the exception of guilders, which showed rather erratic fluctuations, rates for the leading European currencies continued to hold steady during July. The pound sterling firmed slightly against the dollar toward the middle of the month, when rumors were put into circulation that Germany and Poland would reach an agreement over Danzig. During the remainder of July, however, the spot rate continued to fluctuate within the narrow range of \$4.68 $\frac{1}{8}$ to \$4.68 $\frac{1}{4}$, and turnover was limited. French francs were maintained at about 176.72 to the pound and, therefore, also ruled steady against the dollar.

As was the case in the previous month, rate changes in the Netherlands exchange responded to internal political developments. Reports toward the middle of July that a new Netherlands cabinet committed to a conservative financial policy would be formed under former

Prime Minister Colijn led to short covering and the spot rate rose to a high of \$0.5367 on July 24. Renewed signs of weakness, however, developed on subsequent days, as indications of Parliamentary opposition to the new cabinet grew, and the spot rate reacted to close the month at about \$0.5313, only slightly above a month ago. Spot quotations for the other so-called neutral currencies showed only minor fluctuations during the month just ended, and the discount on three month belgas narrowed from an equivalent of 4 per cent per annum to 2 per cent, accompanying an easing of open market money rates in Brussels, which followed the National Bank's action in lowering its discount rate from 3 to 2½ per cent.

The market for non-European currencies during the past month was featured by a sharp break in the Cuban peso and renewed weakness in the Chinese yuan. The peso declined abruptly to a discount of about 18 per cent against the United States dollar early in the month, in response to an intense demand for dollars in Havana induced by projected Cuban monetary legislation. Some improvement occurred, however, as the original legislative program was substantially modified, but the discount at the end of July, at around 9¾ per cent, was considerably in excess of the 5¼ per cent figure prevailing prior to the recent decline. For the second time since the early part of June the British-Chinese Stabilization Fund apparently withdrew its support of the yuan on July 18, allowing the Shanghai rate on London to decline from about 6 9/16 pence, at which level the exchange had recently been pegged, to about 4½ pence. Prior to June 8 the rate had been supported at 8¼ pence. Canadian dollars showed a steady improvement during July and toward the end of the month the spot rate was at parity with the United States dollar for the first time since the early part of March, 1938.

With respect to the London bullion market, some hoarding demand for gold appears to have developed in the latter part of the month just ended, and the dollar equivalent of the London market price of gold rose as high as \$34.77¾, or more than 2½ cents above the theoretical shipping point to this country. Special quarters were reported to have supplied gold to the market and on a number of days only a part of the buying orders was satisfied at the fixing.

Gold Movement

Gold imports of all classes at New York totaled \$257,200,000 during July, of which \$181,800,000 came from England, \$45,500,000 from Holland, \$14,200,000 from Canada, \$5,600,000 from Switzerland, \$3,300,000 from Mexico, \$2,400,000 from China, \$2,100,000 from Colombia, \$1,600,000 from India, \$500,000 from Chile, and \$200,000 from Ecuador. On the West Coast, \$11,000,000 was received from Japan, \$3,800,000 from Australia, \$800,000 from China, and \$300,000 from India.

The amount of gold held under earmark for foreign account at the Federal Reserve Banks increased about \$170,000,000 during July, as compared with an increase of \$105,000,000 in June, and on July 31 foreign holdings of earmarked gold here amounted to approximately \$1,300,000,000. The net gain of gold to the United States in reported international transactions, including receipts

on the West Coast, as well as at New York, but deducting the addition to foreign earmarked holdings, was \$103,100,000, as compared with \$130,500,000 in June and a monthly average of \$257,700,000 in the first six months of 1939.

The gold stock of the United States increased about \$130,000,000 during July, as compared with a gain of \$150,000,000 during June and \$165,000,000 during May, reaching a new high figure of approximately \$16,240,000,000 at the end of the month. The total increase for the first seven months of the year has been in excess of \$1,700,000,000.

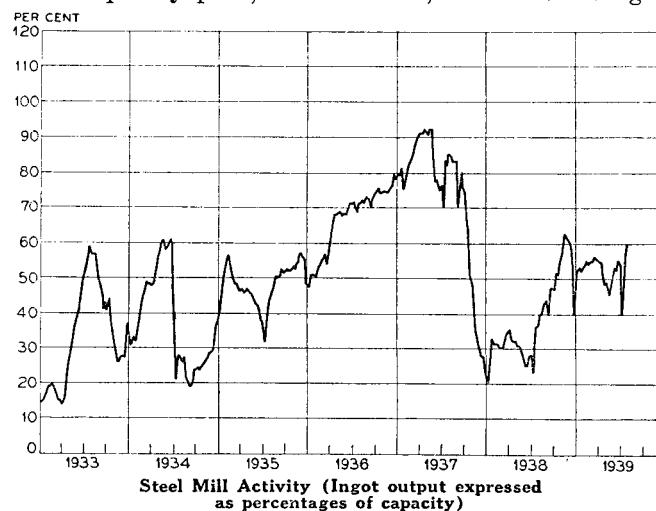
Central Bank Rate Changes

The discount rate of the National Bank of Belgium, which had been reduced from 4 to 3 per cent on May 11, was lowered further to 2½ per cent on July 6. Accompanying this reduction, a special discount rate of 1½ per cent was established for export bills, and the National Bank agreed to make advances against Treasury securities maturing within 120 days at a rate equal to that for ordinary discounts.

Effective July 15 the discount rate of the Bank of Lithuania was lowered from 7 to 6 per cent, having been raised from 5 to 7 per cent on May 15.

Production and Trade

The general level of production and trade appears to have been well maintained in July. Shutdowns of automobile plants for model changes, which formerly came near the year end, but which have been concentrated in August and September since 1935, are coming somewhat earlier this year and there has been a sharp reduction in automobile assemblies, in anticipation of changeovers to new models. It is reported that one independent manufacturer began to assemble 1940 cars during the latter part of July, although final runs on this year's models made up the bulk of the month's production. Steel mill operations, on the other hand, increased steadily after Independence Day shutdowns, and reached about 60 per cent of capacity by the final week in July, the highest rate since the peak of 62 or 63 per cent late last year. As the accompanying diagram indicates, operations at the end of July were at the highest rate, with the exception of that temporary peak, since October, 1937. According to

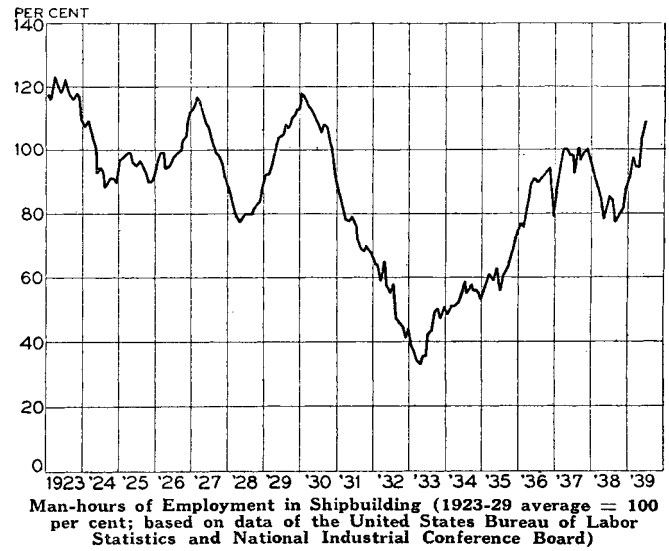


trade reports, automobile companies are not yet taking steel for new models in a substantial way, but steel has been in active demand for construction projects and miscellaneous steel consuming lines. Cotton textile mills operated at a relatively high rate for July, and bituminous coal mining rose further. Merchandise and miscellaneous freight car loadings were slightly lower than the June rate in the first three weeks of July, while shipments of bulk commodities advanced seasonally. Department store sales in this District for the first three weeks of July appear to have shown about the usual seasonal decline from the June level.

After taking seasonal factors into account, industrial production rose considerably between May and June, and railway freight traffic also increased, while retail trade was maintained near the May level. Two developments during May—heavy orders received during a period of price reductions and the resumption of bituminous coal mining—appear to have stimulated steel mill operations, and ingot production increased between May and June, instead of declining as in most past years. Pig iron output also expanded, copper production increased moderately, and automobile assemblies, responding to a well maintained volume of retail sales, were somewhat greater than in May, contrary to the usual experience. Cotton mill activity was reduced less than in many other years, and wool mills increased their operations. Declines were shown in meat packing and in lead production.

During June department store sales throughout the United States showed approximately the usual seasonal decline from the May level, but in this District sales were higher than in May whereas usually little change occurs. Sales of chain grocery stores for the country as a whole were about unchanged from May to June, and sales of other chain stores showed about the customary seasonal advance, while mail order house sales were somewhat lower than in May as in many recent years. Owing mainly to resumption of bituminous coal shipments, total freight car loadings rose considerably during June.

Reflecting recovery of world trade, large scale naval construction, and, most recently, inception of the Maritime Commission's ten year program to rebuild and enlarge the United States' merchant marine, American shipbuilding has displayed a marked expansion. The accompanying diagram shows an index of man-hours of employment in private shipyards, adjusted for seasonal variation, since 1923. During 1923 and the first part of 1924, activity in American shipyards as measured by man-hours of employment continued a decline from the intensive activity of the War and early post-War years, thereafter showing a tendency to level out. There were two subsequent spurts in activity, in 1926-27 and in 1929-30, separated by a recession in 1928, but beginning in 1930 as in most other lines of enterprise a sharp decline set in. In late 1932 and early 1933 private shipyards were offering only about one-third as much employment as in the early part of 1930. Following a slow recovery for two years, activity was sharply accelerated in 1936 and an even higher level of activity was maintained during 1937. There was a relapse last year, but operations have again turned upward, and at the present time man-hours of employment are approaching the highest levels of 1923, 1926-27, and 1929-30. The man-hour figures



presumably understate the recovery in terms of physical production, owing to technological improvements which increase output per man-hour; total tonnage under construction or contract in private yards, which includes about half of current naval construction, is estimated at around 1,000,000 tons, the largest volume on record, except for the World War and early post-War periods.

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

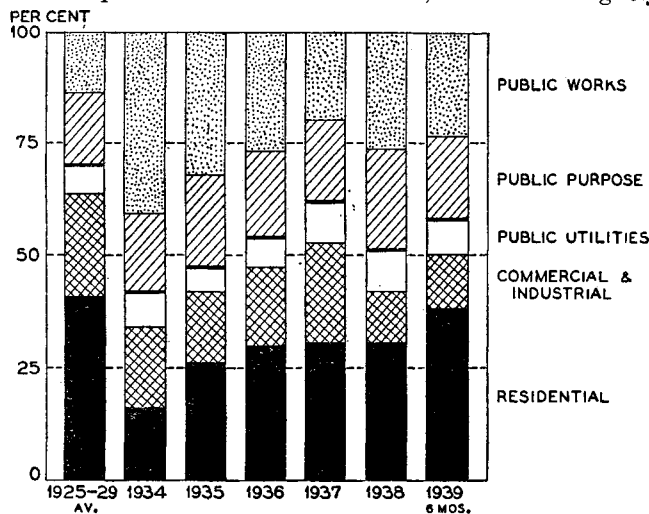
	1938	1939		
	June	April	May	June
<i>Industrial Production</i>				
Steel	37r	61	59	71
Copper	50	72	72	75p
Passenger cars	32	62	52	57
Motor trucks	46	72	68	74
Bituminous coal	62	34	50	79p
Crude petroleum	81	89	89	86p
Electric power	86r	91	91p	94p
Cement	54	60	57	...
Cotton consumption	74	97	94	97
Wool consumption	74	85	98	113p
Shoes	89	99	99	104p
Meat packing	78	83	88	84
Tobacco products	86	89	92	91
<i>Employment</i>				
Employment, manufacturing, U. S.	83	92	91	93p
Employee hours, manufacturing, U. S.	62	73	73	75p
<i>Construction</i>				
Residential building contracts	31	37	45	41
Nonresidential building and engineering contracts	45	71	52	49
<i>Primary Distribution</i>				
Car loadings, merchandise and misc.	69	76	77	77
Car loadings, other	63	60	66	78
Exports	85	81	91	88
Imports	64	77	77	74
<i>Distribution to consumer</i>				
Department store sales, U. S.	80	85	84	84p
Department store sales, 2nd District	77r	79	78	80p
Chain grocery sales	100	114	118	119p
Other chain store sales	88	99	93	94p
Mail order house sales	87r	102	105r	102p
New passenger car registrations	40	68	66	68
<i>Velocity of Deposits*</i>				
Velocity of demand deposits, outside New York City (1919-25 average = 100)	60	59	60	59
Velocity of demand deposits, New York City (1919-25 average = 100)	42	31	32	34
<i>Prices and Wages*</i>				
General price level (1913 average = 100)	152	152	152p	153p
Cost of living (1913 average = 100)	149	146	146	146
Wage rates (1926 average = 100)	111	111	111p	...

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

Building

During June the average daily rate of construction contract awards in the 37 States included in the F. W. Dodge Corporation survey was 3 per cent below the May average. There were substantial decreases in contracts for residential building and heavy engineering projects, which, however, were nearly offset by increases in other types of construction, including especially awards in the District of Columbia for two United States Government buildings and one large office building. Compared with June a year ago, total contracts showed an increase of 19 per cent, most of the leading construction categories contributing in some measure to the advance. For the first half of 1939, aggregate awards registered a 31 per cent gain over the corresponding period in 1938, owing principally to a 61 per cent increase in residential building, although gains of smaller proportions occurred in all the other major types of construction.

The value of construction contracts awarded in the 37 States during the first six months of 1939 totaled about \$1,700,000,000, corresponding to a monthly rate more than twice that of 1934, although equal to only about half the monthly average in the five predepression years, 1925-29. The accompanying diagram illustrates the varying composition of construction contracts in 1925-29, and from 1934 to date. Residential building dropped to only about one-sixth of the total in 1934, but subsequently has gradually returned to near the 1925-29 proportion, approximately 40 per cent. Public works, on the other hand, which represented only 14 per cent of all construction in 1925-29, was increased to 40 per cent in the period of low private activity in 1934, but comprised less than one-fourth of all construction in the first six months of this year. However, from the standpoint of actual construction rather than the placement of contracts, public works no doubt constituted a larger percentage of construction activity in the first half of 1939 than is indicated in the diagram, owing to the heavy volume of Public Works Administration contracts let in December of last year. Commercial and industrial building awards remain relatively low compared with other types of construction, and in the first six months of 1939 averaged about 12 per cent of all construction, which was slightly



Percentage Distribution of Principal Types of Construction Contracts in 37 States (Based on F. W. Dodge Corporation data)

over half the 1925-29 proportion. Contracts for public utilities and public purpose building comprised fairly constant percentages of the total throughout the period, although the actual volume has been substantially less than in the 20's.

The heavy lines drawn through the columns of the diagram roughly indicate the division between public and private construction. Private construction, including residential, commercial, and industrial building, as well as public utility projects, represented 70 per cent of all construction in the 1925-29 period, but its share of the total was reduced to slightly over 40 per cent in 1934. The proportion of private construction recovered gradually in the succeeding three years and following a setback in 1938 has risen again this year, though at no time has it reached the average proportion of 1925-29.

The daily rate of construction contract awards in the New York and Northern New Jersey area during June was 29 per cent lower than in May, a considerably larger reduction than for the country as a whole. The unfavorable comparison with the previous month in this area resulted chiefly from a decline of 45 per cent in residential building, partly due to the inclusion in the May figures of awards for several large scale housing projects, for which there was no counterpart in June. On the other hand, an increase of 56 per cent over May was registered in commercial and industrial building, the principal explanation for which was the placing of a contract in June for a large office building in New York City. Compared with June, 1938, total awards in the New York and Northern New Jersey area showed a 10 per cent decline; residential building awards fell slightly below the corresponding month of 1938 for the first time this year. However, for the first six months of this year a 68 per cent increase in residential building over the corresponding period of 1938 was the largest contributing factor to a 14 per cent gain in total construction contracts in this period.

During the first three weeks of July, construction contracts in the 37 States were awarded at an average rate 5 per cent above the June level, a substantial increase in heavy engineering awards more than offsetting decreases in residential and nonresidential building contracts. Compared with the first three weeks of July, 1938, however, all the major construction classifications showed gains, the largest of which was 63 per cent for non-residential building; all types of construction combined increased 43 per cent over a year ago.

Employment and Payrolls

Employment in nonagricultural occupations throughout the country was reported by the Secretary of Labor to have increased by approximately 400,000 persons in June, with practically all the major industry classifications sharing in the advance. The settlement of the labor controversy in the bituminous coal industry was responsible for the reemployment of about 162,000 workers, but even with this factor eliminated the remaining gain is reported as one of the largest increases in employment for the month of June in the past ten years. Significant gains were reported in working forces in manufacturing and trade, on railways, and at public utility plants. Altogether it is estimated that there were over 1,200,000 more nonagricultural workers employed this June than

in the same month a year ago, but employment remained considerably below the level of June, 1937.

The increase in factory employment amounted to less than 1 per cent, but factory payrolls rose about 2 per cent, and both employment and payrolls ordinarily show slight seasonal declines at this time of the year. Both durable and nondurable goods industries participated in the advance in working forces. Especially pronounced increases took place in the food, building materials, woolen, and aircraft industries. Gains of 11 per cent in employment and of about 22 per cent in payrolls over June, 1938 were indicated.

Both employment and payrolls in New York State factories increased slightly between the middle of May and the middle of June, whereas small declines usually occur at this time of year. Nine of the eleven principal industrial groups reported increased working forces for June. A pronounced gain was registered by the food group, owing largely to seasonal expansion in the canning and preserving industry, and a sizable rise was also shown in the fur, leather, and rubber goods industries. The number of workers engaged in New York City clothing and millinery shops declined further as a result of seasonal factors, but increased employment was reported by men's clothing factories up-State. As compared with June, 1938, employment was 13 per cent higher and payrolls rose 19 per cent.

Commodity Prices

July was marked by further sharp declines in grain prices and by relative steadiness or rising tendencies in quotations for many important industrial raw materials.

Estimates of large world crops and prospects of sizable carryovers were the dominant factors in the fall in grain prices. In the protected domestic market the quotation at Minneapolis for cash wheat reached the lowest level since October, 1933 and meanwhile in the free market of Liverpool wheat prices were reported to have reached the lowest point in modern times. Following a decline of 11 cents in the domestic price to 68 $\frac{3}{4}$ cents a bushel through July 24, there was some recovery toward the end of the month. Cash corn touched 39 $\frac{5}{8}$ cents a bushel, also the lowest price since the fall of 1933, compared with 48 $\frac{3}{4}$ cents at the end of June, though the net loss was reduced by a recovery in the last week of the month. Additional factors in this recession were competition from Argentine supplies and fear that the United States Government might release some of the cereal from the loan stock. In sympathy with corn, average hog prices declined to as low as \$6.58 a hundredweight, off 39 cents from the end of June.

Advances in certain industrial raw materials were associated with improved demand and small available supplies, and also with special factors affecting particular commodities. The quotation for hides increased 1 $\frac{1}{2}$ cents to 12 $\frac{1}{2}$ cents a pound, partly under stimulus of a threatened packers' strike. Raw silk in New York rose 29 cents during the month to \$2.80 $\frac{1}{2}$ a pound on July 26, a new high since 1931, reflecting the lowest stocks in New York in nearly eighteen years. Spot cotton in New York increased $\frac{1}{4}$ cent and on July 10 reached 10.02 cents a pound, the highest since August, 1937, in response to the Government estimate of the second smallest acreage for harvest since 1899. The price later relapsed to 9.34

cents, but strengthened following the announcement of an export subsidy of 1 $\frac{1}{2}$ cents a pound, effective July 27, and cotton quotations closed July near their levels at the end of June. Domestic wool and crude rubber prices were firm in July, the latter despite an increase in permissible exports from 55 to 60 per cent of basic quotas.

Among metal quotations gains predominated. Scrap steel at Pittsburgh was quoted 50 cents higher, at \$15.75 a ton. Following large foreign purchases of copper and reports of increased domestic consumption, the price was lifted $\frac{3}{8}$ cent to 10 $\frac{3}{8}$ cents a pound. The quotation for zinc at East St. Louis was advanced 10 points to 4.60 cents a pound.

Foreign Trade

Merchandise exports from the United States in June were valued at \$236,000,000, and imports at \$179,000,000. Imports were 23 per cent above the June, 1938 level, and exports showed a slight increase, the first year-to-year gain in the latter since April, 1938. Both exports and imports, however, were somewhat smaller during June than in the previous month. The export balance was \$57,000,000, compared with \$87,000,000 in June of last year.

Exports of the majority of crude materials and crude foodstuffs, including especially grain, crude petroleum, and unmanufactured cotton, continued to be well below the levels of a year ago, while increases were again shown in exports of a large number of manufactured and semimanufactured products, notably aircraft, automobiles, iron and steel products, and manufactures of rubber and textiles. Among the imports, all of the major economic groups registered increases over June, 1938, ranging from 4 per cent for manufactured foodstuffs to 44 per cent for crude materials. With the exception of certain food products, including such items as bananas and vegetable oils, most of the leading individual imports were larger in quantities and values than a year ago. Imports of raw silk and burlap, while smaller in volume, showed increases in value over June, 1938, due to increases in the prices of these commodities.

During the first half of 1939, exports totaled \$1,415,000,000, an amount 11 per cent smaller than for the comparable period of last year. Imports, on the other hand, aggregating \$1,095,000,000, showed an increase of 14 per cent over the first half of 1938. This country's export balance thus was reduced to \$320,000,000 for the first six months of this year, or only about half the amount in the corresponding period in 1938.

The following table, showing the balance of merchandise trade by broad commodity classifications, analyzes this reduction in the export balance. With respect to agricultural products, exports declined 35 per cent in value, while imports increased 9 per cent over the first half of 1938, thus expanding the dollar excess of imports of these commodities from \$64,000,000 to \$252,000,000, as the table shows. The leading factors in this substantial change were large decreases in exports of grain and cotton, and moderate to very large increases in imports of wool, hides and skins, rubber, foreign tobacco, and raw silk.

Among nonagricultural commodities, exports during the first six months of this year were 3 per cent lower than in the same period of last year while imports were

18 per cent higher. The excess of exports of this type was reduced in dollar value from \$691,000,000 to \$577,000,000. A change from an export to an import balance in crude materials of nonagricultural origin was largely due to substantial decreases in exports of crude petroleum and coal, combined with an increase in imports of undressed furs. The export balance in both wholly and partly finished manufactures was materially smaller than last year, principally because of increases in imports rather than much change in the exports. Nonagricultural products showing large gains in imports included cut diamonds, newsprint, tin, and nickel.

(In thousands of dollars; + indicates excess of exports,*
— indicates excess of imports**)

	Agricultural products		Nonagricultural products	
	Jan.-June, 1938	Jan.-June, 1939	Jan.-June, 1938	Jan.-June, 1939
Crude materials.....	-17,460	-124,906	+ 22,440	- 14,520
Crude foodstuffs.....	+28,473	- 78,020	- 5,979	- 5,535
Manufactured foodstuffs.....	-52,522	- 29,509	- 22,473	- 22,018
Semimanufactures.....	-23,640	- 20,109	+101,660	+ 47,422
Finished manufactures..	+ 1,378	+ 1,022	+595,807	+571,515
All groups.....	-63,771	-251,522	+691,455	+576,864

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

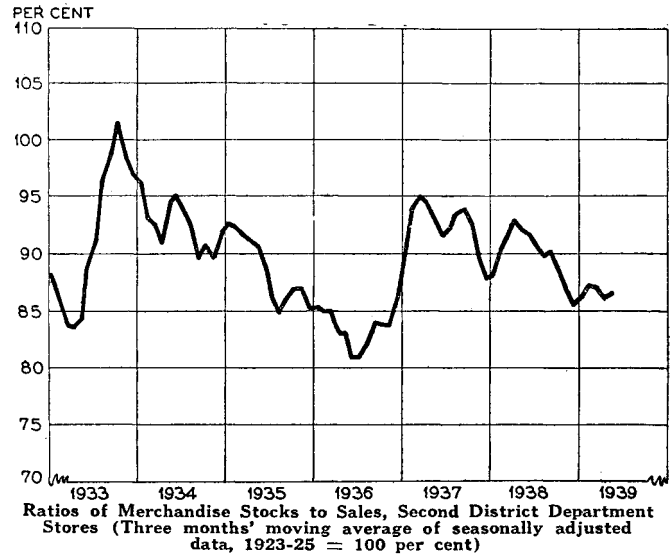
Department Store Trade

About the usual seasonal decline during July in department store sales in this District is indicated by figures for the three weeks ended July 22. During this three week period, sales were about 4½ per cent higher than in the corresponding period of 1938.

In June total sales of the reporting department stores in this District were about 3 per cent higher than last year, a smaller advance than in May, and apparel store sales were also about 3 per cent higher than in June, 1938. These comparisons, however, are influenced by the fact that retail sales last year were considerably better in June than in May. At least partly for this reason, department stores in a majority of the localities recorded smaller increases in sales during June this year than in the previous month. For the District as a whole, the daily rate of sales advanced from May to June, whereas usually there is not much change between these two months.

The total volume of sales of the reporting department stores in this District for the first half of 1939 was approximately the same as in the corresponding period of last year, compared with a decrease of almost 8 per cent between the first half of 1937 and 1938.

Ratios of merchandise stocks to sales, seasonally adjusted, for department stores in the Second Federal Reserve District are shown in the accompanying diagram from 1933 to date. Irregularities in the ratios have been reduced by the use of a three months' moving average. From an unusually low point early in 1933 stocks were built up rapidly in relationship to sales, under the impetus of the sharp price increases which took place at the time the N.R.A. was established. From its peak in the latter part of 1933 the ratio worked irregularly lower for three years, owing partly to a moderate reduction in stocks, but more largely to a gradual rise in sales. Late in 1936 a second accumulation of stocks began, again under the inducement of rising



prices, as in 1933. The ratio ceased to advance in the spring of 1937 and then began a slow and irregular decline, stocks tending to decrease more rapidly than sales. The sharp rise in the ratio in the early months of 1938 was accounted for largely by a fairly rapid decline in sales, although stocks showed a small and temporary increase at that time. During the remainder of 1938 the decline in the stock-sales ratio was resumed, but in 1939 stocks and sales have moved roughly together, and the decline in the ratio appears to have been checked. The present position of the ratio, while not as low as in the spring of 1933 or the autumn of 1936, indicates that stocks of merchandise in department stores are now quite low relative to the current volume of sales.

Locality	Percentage change from a year ago			Per cent of accounts outstanding May 31 collected in June	
	Net sales		Stock on hand end of month	1938	1939
	June	Jan. to June			
New York and Brooklyn.....	+ 2.1	- 1.6	- 3.0	49.8	48.8
Buffalo.....	+ 4.9	+ 1.4	- 1.7	42.7	44.5
Rochester.....	+ 3.8	+ 1.8	- 1.0	53.1	57.3
Syracuse.....	+12.1	+ 5.7	- 1.9	40.1	40.4
Northern New Jersey.....	+ 2.9	+ 2.0	- 1.9	43.6	41.4
Bridgeport.....	+ 9.0	+ 4.8	+ 8.2	38.8	39.1
Elsewhere.....	+ 7.4	+ 2.8	+ 4.1	32.9	36.0
Northern New York State.....	- 3.5	- 8.3	.....	.....	.....
Southern New York State.....	+ 3.0	+ 3.9	.....	.....	.....
Central New York State.....	+ 4.1	+ 2.1	.....	.....	.....
Hudson River Valley District..	+ 9.6	+ 3.9	.....	.....	.....
Westchester and Stamford.....	+11.3	+ 3.8	.....	.....	.....
Niagara Falls.....	+10.6	- 0.4	.....	.....	.....
All department stores.....	+ 2.9	- 0.4	- 2.2	46.4	46.0
Apparel stores.....	+ 2.8	- 2.1	+ 2.7	42.1	44.0

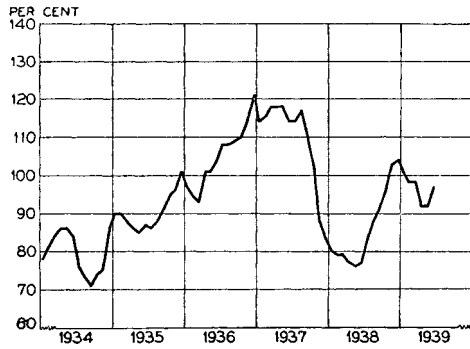
Department Store Sales and Stocks, Second Federal Reserve District
(1923-25 average = 100)

	1938	1939		
	June	April	May	June
Sales, unadjusted.....	84r	86	85	87
Sales, seasonally adjusted.....	88r	89	88	90
Stocks, unadjusted.....	75	78	78	73
Stocks, seasonally adjusted.....	79	77	76	77

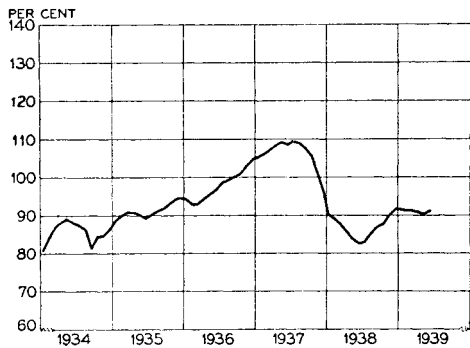
r = Revised.

FEDERAL RESERVE BANK OF NEW YORK

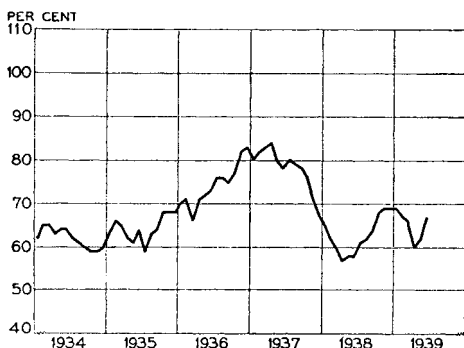
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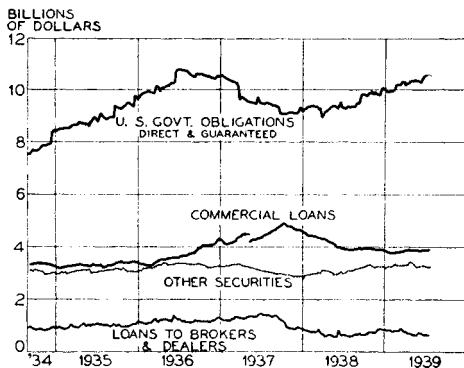
Index of Physical Volume of Industrial Production, Adjusted for Seasonal Variation (1923-25 average = 100 per cent)



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



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



Wednesday Figures for Reporting Member Banks in 101 Leading Cities (Latest figures are for July 12)

Business Conditions in the United States

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

OUTPUT of factories and mines increased in June reflecting chiefly sharp expansion at steel mills and bituminous coal mines. In the first half of July industrial activity was generally maintained.

PRODUCTION

The Board's seasonally adjusted index of industrial production advanced to 97 in June as compared with 92 in April and May.

At steel mills output increased from a rate of 45 per cent of capacity in the third week of May to 54 at the end of June and to 56 in the third week of July. Automobile production, which had declined in May, showed some increase in June when a decline is customary. In the first three weeks of July automobile output was at a lower rate, reflecting in part curtailment preparatory to the changeover to new models. Plate glass production rose considerably in June. Output of lumber, which usually shows some increase over May, was unchanged. Among nondurable goods industries woolen mills showed increased activity in June, and activity at cotton and silk mills was maintained though declines are usual at this season. Meat packing was lower than in May.

Mineral production increased considerably in June reflecting a sharp rise in output at bituminous coal mines which had been closed during April and the first half of May. Production of anthracite declined from May to June and there was some reduction in output of petroleum.

Value of construction contracts awarded declined in June, according to F. W. Dodge Corporation figures, reflecting chiefly a greater than seasonal decrease in private residential building. Contracts awarded for public residential construction, principally for United States Housing Authority projects, were maintained at the advanced level reached in May, while public construction other than residential showed a small decline.

EMPLOYMENT

Factory employment and payrolls increased somewhat from the middle of May to the middle of June according to reports from a number of important industrial States. There was a sharp expansion in employment at bituminous coal mines following the reopening of the mines in the middle of May, and the number employed on the railroads increased more than seasonally from May to June.

DISTRIBUTION

Department store sales showed a less than seasonal decline from May to June and the Board's adjusted index advanced from 85 to 86, which compares with a level of 88 during the first four months of the year. Sales at variety stores and by mail order houses showed little change.

Freight car loadings increased more than seasonally in June reflecting a sharp rise in shipments of coal and smaller increases in shipments of grain and miscellaneous freight.

COMMODITY PRICES

Prices of hides, silk, steel scrap, copper, and some other industrial materials advanced from the middle of June to the third week of July, while some farm products, particularly grains, declined. Prices of most other commodities showed little change.

AGRICULTURE

A total wheat crop of 716,655,000 bushels was indicated on the basis of July 1 conditions, according to the Department of Agriculture. This would be much smaller than last year's large crop and somewhat below the 1928-1937 average. Cotton acreage in cultivation was estimated to be about the same as last year but one-third less than the 10 year average. A record tobacco crop is indicated. Most other major crops are expected to approximate last year's harvests and are generally larger than average.

BANK CREDIT

Total loans and investments of member banks in 101 leading cities continued to increase during the four weeks ended July 12, reflecting largely purchases of United States Government securities. Commercial loans, which had shown little change in recent months, increased slightly. Deposits and reserves at these banks rose to new high levels in July, reflecting continued gold imports and Treasury disbursements from its balances at the Reserve Banks.

MONEY RATES

Prices of United States Government securities, which had declined somewhat during June, recovered part of the loss in July. The longest term Treasury bond outstanding showed a yield of 2.31 per cent on July 20, as compared with a record low of 2.26 on June 5. Open market money rates showed little change.