MONTHLY REVIEW
of Credit and Business Conditions
Second Federal Reserve District

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

Money Market in September

The chief effects of the outbreak of war in Europe that have appeared in the money market have been a decline in prices of high grade bonds, and a substantial rise in stock prices, short term money rates showing only slight changes. The decline in high grade bond prices was general, and in the case of long term Treasury issues carried quotations down to the lowest average level since the spring of 1937. In the stock market there was an abrupt reversal at the beginning of September of the tendency observed in August for prices to decline as the prospect of war increased; almost immediately after the outbreak of hostilities stock prices began to advance strongly. Short term money rates, in contrast to the rapid rise in yields on high grade bonds, remained unchanged, except for a small advance in yields on Treasury bills and a slight rise in open market commercial paper rates. Rates charged by New York City banks on direct loans to customers appear to have remained at the previous low levels.

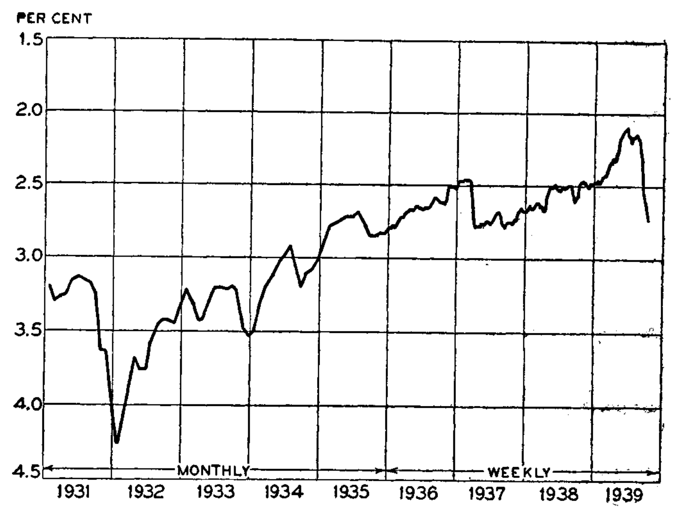
The decline in prices of high grade bonds and the accompanying rise in their yields evidently reflected a rather widespread feeling of uncertainty as to the effects which the war may have on the market for high grade bonds and on the future course of interest rates, rather than any reduction in the available supply of funds for investment. The demand for commercial and industrial loans, it is true, has shown some acceleration since the first of September, accompanying the sharp upturn in business, but the volume of loans on securities, despite the rapid rise in stock prices, has shown a net reduction to the lowest level since the spring of 1933. On the other hand, the supply of money, measured by the volume of member bank excess reserves, rose considerably further in September. Total loans of all weekly reporting member banks increased $230,000,000 between June 28 and September 20, but the volume of excess reserves increased more than $1,000,000,000 in the same period, a development which ordinarily would have meant even greater pressure toward lower money rates than had prevailed previously.

The large New York City banks in general retained their holdings of Government bonds. Reporting member banks in other principal cities also retained most of their holdings of Government bonds, but a large volume of offerings came into the market in the early part of the month from the smaller banks of the country and from other institutions and investors. At the close of the month the smaller banks and other similar investors were again reported to be buying Government securities.

During the periods of greatest uncertainty and heavy offerings in the Government security market, the Federal Reserve Banks undertook to maintain orderly market conditions. They entered the market when other buying was largely absent, and bought a substantial amount of securities at declining prices. The volume of selling diminished rapidly after the first twelve days of the month and the Reserve Banks reduced their participation in the market accordingly. Before the middle of the month buying interest reappeared in the market for the shorter term Treasury issues, and spread gradually to the longest maturities by the end of the month. Prices gradually leveled out and near the close of the month turned upward.

During the five weeks ended September 27, total Government security holdings of Federal Reserve Banks showed an increase of $381,000,000, representing the net effect of a decrease of $93,000,000 in Treasury bill holdings, an increase of $69,000,000 in holdings of notes, and an increase of $405,000,000 in bonds. Of the total bond and note purchases, 90 per cent were made before the 14th of the month. As this figure would indicate, very little support was given the Government security market by the Reserve Banks during the latter half of the month.

Reserve Bank security purchases were a substantial factor in the continued rise in the volume of member bank reserves during September. Other important factors were a further inflow of gold from abroad and net dis-



Average Yield on Treasury Bonds of More Than 12 Year Term to Call Date or Maturity (Latest plotting is average of daily figures for week ended September 23—scale inverted to indicate price movement)

bursements by the Treasury. The increases in member bank reserves from these sources were partly offset by withdrawals of currency from the banks, largely of a seasonal character, by an increase in foreign central bank deposits in the Reserve Banks, and by increases in member bank reserve requirements. Nevertheless, the volume of excess reserves held by all member banks rose $530,000,000 further in the four weeks ended September 27, reaching a new high level at $5,330,000,000.

Adjusted demand deposits in the weekly reporting member banks also reached new high levels during September, but the largest factor in the increase in member bank reserve requirements was a sudden increase of more than $500,000,000 in the volume of deposits held by banks in the principal cities for other banks throughout the country. The increase in such deposits (which represent largely idle funds of other banks) to far higher levels than ever before, apparently was related, at least in part, to sales of Government securities and other bonds.

Money Rates in New York

	Sept. 30, 1938	Aug. 31, 1939	Sept. 28, 1939
Stock Exchange call loans	1	1	1
Stock Exchange 90 day loans	*1 ¼	*1 ¼	*1 ¼
Prime commercial paper—4-6 months	⅝-¾	½-⅝	⅝-¾
Bills—90 day unindorsed	7/16	7/16	7/16
Average yield on Treasury notes (3-5 years)	0.76	0.64	#0.89
Average yield on Treasury bonds (more than 12 years to maturity or call date)	2.53	2.30	†2.69
Average rate on latest Treasury bill sale 91 day issue	0.142	0.076	0.082
Federal Reserve Bank of New York discount 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 from previous yields due to dropping from the average the 2 per cent Treasury note issue of September 15, 1942, because it matures within three years.
†Change of +0.03 per cent in the average yield, due to dropping from the average the 3 per cent Treasury bond issue of 1951-55 because it is callable within 12 years.

Member Bank Credit

The outstanding development in member bank credit during the past month has been a considerable increase in the demand for commercial and industrial loans. There had been a gradual increase in the volume of such loans at New York City banks from the latter part of June to the latter part of August, but no net increase at reporting member banks in 100 other principal cities. A rapid upturn occurred in the last week of August and continued in the first three weeks of September, not only in New York City but also in other principal cities. Altogether the increase between June 28 and September 20 in all reporting member banks amounted to $368,000,000, but the volume on the latter date was still well below that reached during the autumn of 1937. Loans to security brokers and dealers increased somewhat in the first week of September, apparently reflecting largely the financing of transactions in Government securities, but declined subsequently, and on September 20 the amount of such loans in all reporting member banks was $107,000,000 lower than on August 23, and was the smallest in several years.

Total investments of all reporting banks showed a net reduction of $142,000,000 during the four-week period ended September 20, all of which was in holdings of Government obligations, including Government guaranteed securities. Part of the reduction, however, was in holdings of Treasury bills, and apparently reflected a more active demand for these securities from other investors, as Reserve Bank holdings of Treasury bills also were reduced during this period. Treasury bond holdings were reduced by $41,000,000, and Government guaranteed securities were reduced by $44,000,000. Reports from the principal New York City banks showed a slight increase in holdings of Treasury bonds, and an increase of $53,000,000 in holdings of Treasury bills, but there were reductions of $30,000,000 in holdings of Treasury notes, and of $34,000,000 in holdings of Government guaranteed securities. In 100 other principal cities the reporting member banks showed reductions of $48,000,000 in holdings of Treasury bonds, $110,000,000 in Treasury bills, and $10,000,000 in Government guaranteed securities, but holdings of Treasury notes increased $23,000,000.

Government Securities

Immediately after the outbreak of war, heavy selling of United States Government securities developed. Offerings of securities in the market came from investors other than the larger banks and institutional investors, which generally made no attempt to dispose of their holdings of Government securities. The average price of Treasury bonds not due or callable within 12 years, which had eased about 2½ points in August to reach a level about 3 points below the June peak, dropped 3⅝ points further in the days through September 6 and continued to decline through September 21, though generally at a slower rate as the pressure of offerings subsided, before reaching a level where new investment buying occurred, with resultant price stability. The maximum decline in long term Treasury bonds in September, therefore, amounted to 6⅜ points, making a total decline from the June peak of about 9¼ points. After September 21, long term Treasury bond prices steadied for a few days, and in the last few days of the month recovered about 1½ points of the previous declines. Near the close of the month, long term Treasury bonds were yielding 2.69 per cent, as compared with the month's high of 2.79 per cent, 2.30 per cent at the end of August, and the June low of 2.07 per cent.

Treasury note prices declined only through September 6, when the average yield on 3 to 5 year maturities rose to 1.30 per cent, as compared with 0.64 per cent at the end of August and the June low of 0.35 per cent. Subsequently there was an irregular advance in note prices which reduced the average yield to 1.12 per cent by the 21st and to 0.89 per cent on September 28.

Early in the month, the Treasury announced its intention not to engage in any financing on the September quarter date, in view of the disturbed conditions arising from the European situation. The weekly sales of Treasury bills were consummated as usual, though at slightly higher rates than for some previous months. The highest rate of the month was on the issue dated September 13, amounting to 0.159 per cent; subsequently rates declined, and on the issue of September 27 averaged 0.082 per cent, or only slightly higher than the rate on the last issue of August.

Commercial Paper and Bills

Continuing into the early days of September, dealers reported the prevailing range for average grade prime four to six month commercial paper at ½-⅝ per cent, and the major part of the business continued to be done at ½ per cent. Subsequently, the rates firmed slightly and by about the middle of the month had become established at a range of ⅝-¾ per cent, with somewhat the larger part of the sales reported at ¾ per cent. Commercial and mercantile concerns that use the facilities of the open market appear to have increased their borrowings somewhat, although the total addition to existing supplies of paper is indicated to have been small. Inquiries from commercial concerns as to the availability of funds, which increased noticeably immediately after hostilities began abroad, apparently resulted in new drawings of paper only to a limited extent, and more recently inquiries have diminished considerably. On the other hand, a number of investing banks that retired from the market early in the month, pending developments, were reported to have reentered the market later in the month.

At the end of August a total of $201,100,000 of paper was outstanding through commercial paper houses. This amount is about 4 per cent larger than the amount outstanding a month ago, but is 4 per cent less than a year ago.

Although a slight increase in trading activity occurred in the bill market around the middle of the month, in general the market remained extremely quiet. The small volume of trading was at previously current rate levels. The volume of bankers bills outstanding showed only a small decline during August, but a reduction of $23,000,000 from the volume outstanding in August, 1938.

(Millions of dollars)

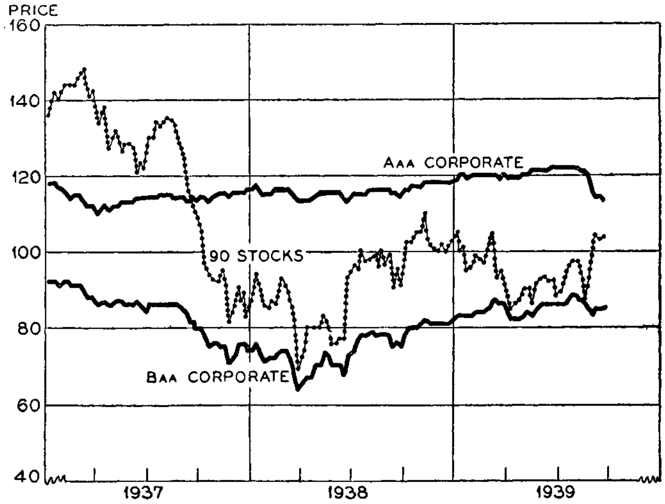
Type of acceptance	Aug. 31, 1938	July 31, 1939	Aug. 31, 1939
Import	83	75	79
Export	58	41	40
Domestic shipment	10	9	8
Domestic warehouse credit	45	31	31
Dollar exchange	2	19	18
Based on goods stored in or shipped between foreign countries	60	61	59
Total	258	236	235

Security Markets

In contrast to the declines in stock prices which occurred in August, owing to fears that the acute political situation in Europe would culminate in war, the actual outbreak of war was followed by sharp advances in stock prices and greatly increased trading in a broad list of issues during the first part of September.

At first, the advances in stock prices were largely in issues of companies whose business might be expected to be enlarged considerably as a result of the war, such as steel and other metal, chemical, and airplane companies, but later the advance spread to a large number of other industrial stocks and to the railroad stocks, and even in small degree to public utility shares. By September 12, the average price of industrial stocks had risen 24 per cent from the August 24 low, and several of the "war stock" groups had advanced considerably more—for example, the stocks of several steel companies showed advances exceeding 70 per cent. During this period, turnover on the New York Stock Exchange reached nearly 6 million shares on one day, exceeded 4 million shares on two days, and was between 3 and 4 million shares on two other days.

After September 12, industrial stock prices became



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

much more irregular, apparently reflecting to some extent the course of developments in Europe and later in the month the discussions of legislative revision of the Neutrality Act, and near the end of the month prices were, on the average, slightly below the level reached on September 12. Accompanying the development of irregularity in industrial shares, the total volume of trading on the Exchange declined to a daily volume of between 1 and 2 million shares on most days.

Railroad shares, unlike industrial stocks, continued to advance during September and near the end of the month were about 43 per cent above the August lows. Public utility shares, in which the advance came later in the month than in the case of industrials, registered a net rise of about 5 per cent.

Despite the advances during September, the general average of industrial shares near the end of September remained somewhat below the highest quotations reached in the period from October, 1938 to January, 1939 and about 31 per cent below the levels reached early in 1937, and railroad stocks, while rising above the levels reached in the latter part of 1938, also remained considerably below the 1937 highs. The slight rise in public utility stocks did not take these issues back to the quotations prevailing in the first part of August of this year.

The first effect on the corporate bond market of the outbreak of war was a large decline in prices of high grade corporate issues and some temporary easing in medium and lower grade corporate issues. Indicative of the drop in high grade corporate issues, Moody's Investors Service average of Aaa bonds, including industrial, railroad, and utility issues, which previously had eased 2½ points from the record highs reached in July, declined 7½ points further during September, before steadying in the closing days of the month. Less high grade issues, of the caliber rated Baa by Moody's, declined about 2 points in the opening days of September, following a drop of 3 points in August from the high of that month. After September 5, however, Baa issues turned irregularly firmer, a reflection of the expectation that more active business and larger business profits would improve the position of such bonds, but the subsequent advances, averaging 2½ points, failed to raise the prices, even of railroad bonds, to the quotations prevailing in the first part of August. A considerable number of lower grade railroad bonds, however, reached new highs for the year.

Bonds of all European countries as well as Canadian and Australian issues traded in this market moved sharply lower during September, while issues of South American countries held comparatively steady.

New Financing

The new security issues market came to an almost complete standstill after the outbreak of war. Reflecting the disturbed conditions of the period, including weakness in bond prices, no corporate issues were offered in the first half of September, and the volume of municipal bond awards was very small. Postponements of prospective new issues were general, and there was evident reluctance on the part of investment bankers and syndicates to respond to requests for bids for prospective issues. As the month progressed, however, a slight revival of new security financing occurred. On September 18, public offering was made at par of $1,600,000 of 4½ per cent 10 year convertible debentures of Durez Plastics and Chemicals, Inc., representing the first corporate flotation since August 23. Around the middle of the month, moreover, municipal bond awards increased somewhat, and on September 22 a syndicate bought at 100.16 a block of $4,200,000 of Chesapeake and Ohio Railroad 2½ per cent equipment trust certificates, maturing from 1940 to 1949, only part of which, however, was publicly reoffered.

In the latter part of September two public utility companies announced agreements for sales of substantial blocks of their securities to insurance companies, subject to the approval of public authorities. In connection with the larger of these sales—$75,000,000 New York Telephone Company 3⅜ per cent 25 year refunding mortgage bonds priced at 99½—it was announced that a registration statement was to have been filed with the Securities and Exchange Commission covering this issue, but unsettlement in the security markets made more desirable the consummation of the financing by private sale. The other private placement was of $66,600,000 New York Power and Light Corporation 25 year first mortgage 3¾ per cent refunding bonds, priced at approximately 104.

For the month as a whole, new security issues, excluding the New York Telephone Company and New York Power and Light Corporation private sales, totaled $55,000,000, consisting of $21,000,000 of corporate issues and $34,000,000 of municipal bond awards. Even including these two private sales which are subject to approval by public authorities, the total of $197,000,000 of new long term financing is the smallest since January. In addition to the month's long term issues, there was $115,000,000 of short term financing in September, including $60,000,000 of Federal Intermediate Credit Bank debentures and $45,000,000 City of New York revenue bills; rates on all these issues were higher than on previous similar financing.

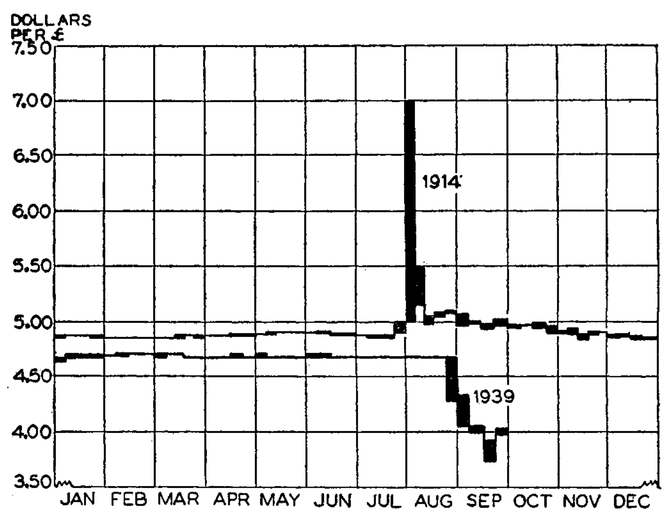
Foreign Exchanges

Wide and erratic fluctuations occurred in a number of the principal foreign exchanges during the past month, as rates in New York became particularly sensitive to changes in supply and demand in the extremely thin markets which followed the imposition of restrictions on exchange and gold transactions, first in the United Kingdom, and later in France and Canada. Interest in the exchange markets continued to be centered in the pound sterling, which toward the end of August had depreciated 34 cents to about $4.34. Further declines occurred on September 1 and 2, and on the following day the British exchange restrictions were announced and the Bank of England fixed its official selling rate for dollars at $4.02 and the buying rate at $4.06. The selling rate remained at this level during the remainder of the month, while the buying rate was lowered on September 14 to $4.04.

The New York rate for the pound declined from $4.20 on September 2 to $4.07½ on September 5, and during the next two weeks pursued a course which bore little relationship to the official London market, presumably on transactions between parties outside the United Kingdom, who are not subject to the exchange control. Renewed pressure against British exchange became evident in the New York market during the second week of the month and culminated in a sharp break in the sterling-dollar rate, which depreciated to a low of $3.75 on September 18. During this time, however, there were market reports that some dollar exchange was being obtained in London on the basis of the official rate of $4.02 for transactions associated with certain American exports to the United Kingdom. Subsequently offerings of sterling in this market diminished, and as some increase in the demand developed toward the end of the month, the rate rose to as high as $4.02¼, or somewhat above the official selling rate for dollars in London.

As shown in the accompanying chart, the behavior of the pound-dollar rate during the past month was in sharp contrast to developments at the outbreak of the World War in 1914, when the pound rose abruptly from $4.88½ on July 23, 1914, to $7.00 two weeks later. In the subsequent months of 1914 and 1915, however, the pound turned sharply downward, and after reaching about $4.56 in September, 1915, the rate at the beginning of 1916 was pegged at $4.76 7/16, a level which was maintained through March, 1919.

With respect to the leading continental European ex-



Weekly Range of Sterling Exchange Rates in New York, 1939 Compared with 1914

changes, the widest movement in rates during the past month occurred in the French franc, which continued to move about parallel with sterling. The franc declined in this market, along with sterling, to a low of \$0.0213 on September 18, but has since recovered to \$0.0228, as compared with \$0.0247¾ at the end of August. In London, French exchange was quoted officially at 176-177 to the pound on most days. With the exception of guilders, which were reported to have been under some pressure on one or two occasions, the so-called neutral currencies were well maintained during the month, and rates for these exchanges at the end of September were little changed from a month ago. The Italian lira, which had held in this market at about \$0.0526¼ from October, 1936, to the end of August, showed a gradual depreciation against the dollar during September and closed the month at \$0.0505.

After having been at parity with the United States dollar between the end of July and August 23, the Canadian dollar weakened abruptly during September to reach a discount of somewhat over 10 per cent, the largest in a number of years. Following the establishment of the Canadian exchange restrictions on September 15, the United States dollar was officially quoted in Canada at a premium of 10-11 per cent. Among the other non-European currencies, the Mexican peso rose from about 16¾ cents to about 21 cents. The Japanese yen declined to a low of \$0.2275 on September 14, accompanying the sharp depreciation in sterling in terms of the dollar, but subsequently recovered to \$0.2331, at which level, it is reported, the yen will be linked to the dollar when the pound-dollar rate in this market is below about \$4.00. As the New York rate for sterling rose above this level toward the end of the month, the Japanese exchange advanced to about \$0.2345, which, on the basis of the current pound-dollar rate, is equivalent to about 1s 2d, the level at which the yen previously had been pegged to sterling.

Gold Movement

During the first three weeks of September imports of gold into the United States continued in heavy volume, representing in part the arrival of gold which had been engaged abroad in the latter part of August for shipment to the United States, and also substantial receipts of gold shipped from Canada. In the subsequent part of September gold imports were in much reduced volume.

For the month as a whole, gold imports of all classes at New York totaled \$297,700,000, of which \$170,200,000 came from England, \$120,000,000 from Canada, \$3,600,000 from India, \$2,100,000 from Colombia, \$1,500,000 from Switzerland, and \$300,000 from Mexico. On the West Coast, \$11,600,000 was received from Japan, \$5,000,000 from Australia, and \$4,900,000 from China.

The amount of gold held under earmark for foreign account showed a net decrease of about \$3,000,000 during September, reducing holdings to approximately \$1,133,000,000.

During September the gold stock of the United States increased about \$285,000,000 to a new high of approximately \$16,930,000,000.

Central Bank Rate Changes

The Bank of England, after raising its rate on August 24 from 2 per cent to 4 per cent, lowered it to 3 per cent on September 28. The National Bank of Denmark (according to press reports) and the Bank of Norway raised their discount rates from 3½ per cent to 4½ per cent, effective September 20 and September 22, respectively. The 3½ per cent rate had been in effect in Denmark since February 23, 1939, and in Norway since January 5, 1938.

Commodity Prices

The outbreak of war in Europe resulted in a heavy demand for most raw materials, which carried their prices sharply upward in September. Moody's index of 15 actively traded commodities rose 23 per cent to reach the highest level since October, 1937; most of this advance occurred in the first few days after the outbreak of war and subsequently prices became more irregular. The breadth of the rise is in marked contrast to the mixed movements which immediately followed the outbreak of the World War in 1914. At that time prices of essential foodstuffs such as wheat and sugar rose, while prices of a number of other commodities, notably cotton, were seriously depressed.

Cash wheat prices advanced about 20 cents to above 90 cents a bushel in the first week of September, and thereafter fluctuated around this level despite the large surplus stocks on this continent as well as in Europe. Corn, like wheat, moved upward and reached 63½ cents a bushel on September 6, a rise of 18 cents from the end of August to the highest price since October, 1937, but owing in part to the announcement that there would be no marketing referendum, the general tendency during the remainder of the month was downward. An unusual retail and speculative demand for sugar developed after war broke out, and resulted in a rise of about one cent in the wholesale price, but after importing and marketing quotas had been suspended, releasing an 800,000 ton reserve of domestic sugar, a part of the rise was canceled.

A one cent rise in cotton prices followed the outbreak of the war, as the raw cotton market was strengthened, despite uncertain export prospects, by heavy domestic sales of cotton goods. As the month progressed raw cotton lost the greater part of its early gains, but closed the month above the level of the end of August. Domestic wool prices rose sharply, as the British Government took over the entire Australian 1939 wool clip, and reached the highest levels since May, 1937. Quotations on rayon filament yarn averaged 2 cents higher at 60½ cents a pound, and silk prices, reflecting unusual strength in Japanese markets, rose 54 cents to \$3.19 a pound on September 15, a new high point since the middle of 1930. The spot quotation for crude rubber advanced 8 cents to 25 cents a pound between August 31 and September 5, but lost half of this gain during the rest of the month. A 6 cent rise in hide prices, on the other hand, was more evenly distributed over the month, and the highest level in two years, 17 cents a pound, was reached on September 25. Livestock quotations showed a substantial advance for the month as a whole.

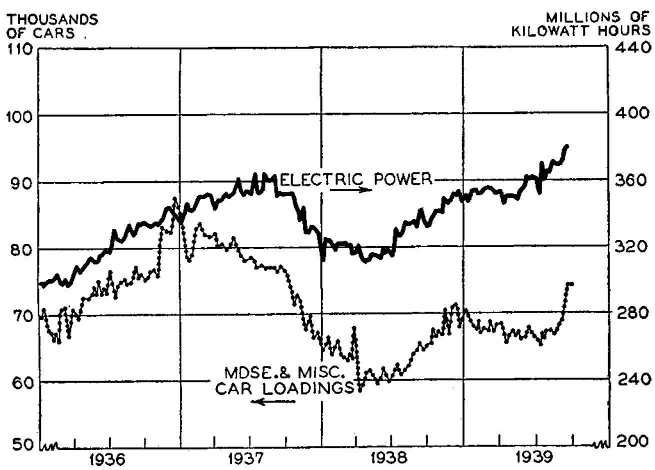
Metal prices moved sharply higher as demand became active following the outbreak of hostilities. Scrap steel at Pittsburgh advanced 7 dollars during the month to \$23.25 a ton on September 26, but although export prices for finished steel were moved up to a parity with quotations to domestic consumers, the largest producer announced that present prices on finished steel sold in this country would continue to apply to shipments made during the fourth quarter. Leading nonferrous metals, after an initial rise to the highest levels since 1937, tended to level out, or, in the case of the nominal quotation for tin, to react somewhat.

Production and Trade

The outbreak of war in Europe resulted in an immediate and strong stimulus to business in the United States. Trade reports, confirmed by available weekly figures, indicated a sudden expansion in activity in primary distribution channels, and substantial increases in production in a number of important industries. Retail trade apparently was affected much less.

The sharply expanded volume of demand in many lines came largely from domestic sources. The rush of orders reflected not only an effort on the part of manufacturers and distributors to increase inventories to meet present needs and to provide for a larger volume of business, but also a desire to anticipate price advances and possible delays in deliveries later on. Although foreign inquiries, coming principally from neutral countries, were numerous, relatively few are believed to have developed as yet into orders.

The rise has been particularly striking in the case of the steel and cotton textile industries. Steel mills have expanded output rapidly to meet substantially enlarged sales to all types of domestic consumers, and at the end of September operations were at 84 per cent of capacity as compared with 63 per cent at the end of August. In cotton textiles the outbreak of war was followed by an extraordinary increase in mill sales; mill inventories were cut sharply, considerable business for delivery later in the year was booked, and production was increased. Not only did these two important industries show pronounced expansion, but more general indicators of business activity, such as electric power production and railway freight traffic, revealed definite advances. As indicated in the accompanying diagram, electric power generation on a seasonally adjusted basis was running 3½ per cent above the average level of August near the end of September, and merchandise and miscellaneous freight car loadings, also seasonally adjusted, were nearly 10 per cent higher than the August average. Electric power production was at a new high level, and freight loadings, in the classifications named, exceeded those for any week since October, 1937. Automobile assemblies rose sharply during September as manufacturers attained volume production on 1940 models, output of bituminous coal expanded more than usual, and crude petroleum production recovered sharply from the August decline. There was a temporary spurt in grocery sales early in September, reflecting an abnormal demand for sugar and some other staples, and in the first three weeks of the month department store sales in this District increased somewhat more than usual over August.



Daily Average Volume of Electric Power Production and Merchandise and Miscellaneous Car Loadings, Adjusted for Seasonal Variation

The general level of production and trade was slightly higher in August than in July, after allowance for seasonal fluctuations. Production, primary distribution of goods, and distribution to consumers all shared in the advance.

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

	1938	1939		
	Aug.	June	July	Aug.
Industrial Production				
Steel	56	71	76*r*	82
Copper	58	75	74*p*	80*p*
Passenger cars *r*	46	62	57	48
Motor trucks *r*	56	77	88	65
Bituminous coal	70	77	82	85*p*
Crude petroleum	88	86	88	67*p*
Electric power	91*r*	94	95*p*	96*p*
Cement	55	60	62	60
Cotton consumption	95	97	105	106
Wool consumption	102	113	116	116*p*
Shoes	108	104	110*p*	106*p*
Meat packing *r*	89	92	93	95
Tobacco products	91	91	86	93
Employment				
Employment, manufacturing, U. S.	86	93	93	94*p*
Employee hours, manufacturing, U. S.	69	75	76	79*p*
Construction				
Residential building contracts	41	41	43	53
Nonresidential building and engineering contracts	63	49	50	55
Primary Distribution				
Car loadings, merchandise and misc	72	77	77	78
Car loadings, other	66	78	81	81
Exports	83	88	87	92*p*
Imports	73	74	75	73*p*
Distribution to Consumer				
Department store sales, U. S.	81	84	84	87*p*
Department store sales, 2nd District	75*r*	80	79	79*p*
Chain grocery sales	100*r*	114*r*	113	121*p*
Other chain store sales	89	94	100	94*p*
Mail order house sales	89	101	97	101
New passenger car registrations *r*	52	68	75	70*p*
*Velocity of Deposits**				
Velocity of demand deposits, outside New York City (1919-25 average = 100)	59	59	58	58
Velocity of demand deposits, New York City (1919-25 average = 100)	36	33	31	30
*Prices and Wages**				
General price level (1913 average = 100)	154	152	153*p*	152*p*
Cost of living (1913 average = 100)	148	146	147	146
Wage rates (1926 average = 100)	109	111	111*p*	..

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

Employment and Payrolls

According to a special survey by the Bureau of Labor Statistics, the number of factory workers employed in the United States increased by more than 300,000 between the middle of August and the middle of September. This increase was reported to have been approximately three times as large as the seasonal rise which ordinarily occurs at this time of year. Large additions to working forces were made by cotton goods, steel, aircraft, shipbuilding and meat packing firms, in addition to seasonal expansion at automobile plants and canning factories.

Gains in employment also occurred in August, when it is estimated that 250,000 more persons were at work in nonagricultural occupations than in July, and over 1,000,000 more than in August, 1938. The greatest part of the August increase was due to expansion of working forces in manufacturing industries. Factory employment and payrolls during August reached the highest levels since late in 1937. Employment rose 3 per cent over July and payrolls were 6½ per cent higher. Seasonal expansion accounted for gains of 72,000 workers in the canning and preserving industry and 36,000 in women's clothing factories. Smaller but still substantial increases were registered in the steel, cotton goods, millinery, and furniture industries. Automobile plants, on the other hand, reduced working forces seasonally. Total factory employment in August was 8½ per cent larger than in August, 1938, and payrolls were 16 per cent higher.

According to the Department of Agriculture, employment on farms rose 5½ per cent during August, about double the usual seasonal increase during this period; however, the number of agricultural workers employed was only slightly higher than a year ago.

A 4 per cent increase in New York State factory employment between July and August brought working forces in this area to the highest point since November, 1937, and factory payrolls rose 6 per cent during the month to the highest level since October, 1937, continuing the upward trend of both employment and payrolls which began in June. The August gains were due in considerable measure to seasonal expansion in the clothing group, especially in the women's clothing and millinery industries, the group as a whole showing increases over July of 19 per cent in employment and 33 per cent in payrolls. In the metals and machinery group, all component industries, with the exception of shipbuilding and aircraft, reported larger working forces. Employment in the food industry, however, declined owing to pronounced seasonal contraction in canning and preserving. As compared with August, 1938, total factory employment was 10 per cent higher and payrolls were 14½ per cent greater.

Building

Construction contracts in the New York and Northern New Jersey area were awarded during August at a daily average rate 41 per cent above the July level, owing principally to the placing of exceptionally large contracts for an additional unit of the new water supply system of New York City and for a large scale housing project of the United States Housing Authority in New York City. These large contracts were reflected in increases over July of 123 per cent in the public works classification and of 79 per cent in residential building; somewhat smaller gains in these construction categories also occurred in comparison with August a year ago. All other major types of construction contracts, however, showed decreases, in relation both to the previous month and to August, 1938. For the first eight months of 1939, construction contracts as a whole in this area were 7 per cent larger than in the corresponding period of 1938; considerable increases in contracts for residential building and public construction were partially counterbalanced by a reduced volume of contracts for private nonresidential projects.

In the 37 States covered by the F. W. Dodge Corporation survey, the daily rate of construction contract awards during August exceeded the July average by 4 per cent. Contracts for residential building and public works projects, influenced by the large awards in New York City, registered gains over the previous month of 16 per cent and 21 per cent, respectively. On the other hand, for the country as a whole, as in the New York and Northern New Jersey area, other major construction groups were below the July levels. During the first eight months of this year, a 50 per cent increase in residential building contracts over the corresponding period of 1938 was the largest factor in a 25 per cent gain in total construction contracts.

For the first three weeks of September the daily average rate of construction contract awards in the 37 States was 6 per cent higher than in August; moderate increases in both nonresidential building and heavy engineering awards were partly offset by a slight decline in residential contracts. Compared with the first three weeks of September, 1938, all the major classifications showed gains, the largest occurring in residential building; total contracts were 19 per cent larger than last year.

Foreign Trade

Merchandise exports from the United States during August were valued at $251,000,000, a gain of about 9 per cent both from the previous month and from a year ago. At $176,000,000, imports showed increases of 4 per cent over July and 6 per cent over August, 1938. In the case of exports, the year-to-year gain exceeded that of any month since February, 1938, while in the case of imports the increase over a yeai ago was the smallest in several months. The resulting export balance of $75,000,000 was larger than in July, and while smaller than in most months of 1938, exceeded the export balance of $65,000,000 in August of last year.

Exports of the majority of wholly and partly manufactured goods were substantially larger in volume than in August, 1938. On the other hand, exports of crude foodstuffs and crude materials, chiefly of agricultural origin, were well below the levels of a year ago. Exports of aircraft and iron and steel semimanufactures, reflecting accelerated armament activity abroad, were more than double their August, 1938 values. Shipments of motor trucks showed an increase of 37 per cent in value over a year ago, while passenger automobile exports were 28 per cent smaller. Owing especially to greater demand from Great Britain and France, exports of American cotton showed increases over a year ago of 20 per cent in quantity and 11 per cent in value, the first year-to-year gain since July, 1938. Comparatively large increases occurred also in such exports as metal working machinery, copper, rubber and textile manufactures, lumber products, wheat flour, meats, and canned fruits. On the other hand, exports of tobacco, grain, dried and fresh fruits, petroleum products, electric refrigerators, and radios were smaller in volume than a year ago.

Imports of crude materials showed an increase of 23 per cent over August, 1938, and imports of semimanufactured products were slightly larger, while receipts of finished manufactures and of crude and manufactured foodstuffs were somewhat smaller than a year ago. With respect to individual commodities, exceptionally large percentage gains over August, 1938, occurred in imports of unmanufactured jute, diamonds, and beef cattle. Nickel imports were 72 per cent greater in value, and receipts of unmanufactured wool and rubber were more than 50 per cent larger. Material increases were shown also in imports of hides and skins, meat products, and tea; silk and tin imports, while smaller in quantities, were considerably larger in values, owing to the rise over a year ago in the prices of these commodities. Substantial decreases, however, were registered in such imports as coffee, cocoa, sugar, edible vegetable oils, burlap, and woodpulp.

The accompanying table shows for the twelve months ended July 31, 1939, the merchandise trade of the United States with a number of foreign nations, arranged in the order of their importance in this country's export and import trade, respectively. Shipments during this period to the eighteen nations of first rank in the export list amounted to $2,258,000,000, or 77 per cent of total exports from the United States, while receipts from the eighteen nations of first rank in the import list were valued at $1,585,200,000, or 75 per cent of this country's imports from all sources. As the table indicates, the United Kingdom was our best customer, taking 17 per cent of this country's exports, and Canada followed closely, absorbing 15 per cent of our exports to all nations; exports to Japan and France constituted 8 per cent and 5 per cent, respectively, of the total, and the proportion to the Philippine Islands, Germany, and the Netherlands amounted to about 3 per cent each. The five largest Latin American consumers of our products together took 11½ per cent of our total exports.

With respect to imports into the United States, Canada was the largest single source, supplying 14 per cent of the total, principally in the form of wood, paper, and nonferrous metals, and the United Kingdom furnished nearly 7 per cent of our imports. Japan, as the leading source of raw silk, accounted for 6 per cent of the aggregate imports into the United States, and British Malaya, the chief origin of crude rubber and tin, followed with 5½ per cent of our foreign purchases. Next in importance were Brazil, owing especially to large shipments of coffee to this country, and Cuba and the Philippine Islands, as primary sources of raw sugar.

Exports			Imports		
From United States to	12 months ended July 31, 1939 — Dollar value (in millions)	Per cent of total	Into United States from	12 months ended July 31, 1939 — Dollar value (in millions)	Per cent of total
United Kingdom	498.7	17.1	Canada	296.2	14.0
Canada	425.8	14.6	United Kingdom	143.3	6.8
Japan	224.2	7.7	Japan	129.9	6.1
France	142.0	4.9	British Malaya	117.0	5.5
Philippine Islands	91.7	3.1	Brazil	99.7	4.7
Germany	91.1	3.1	Cuba	97.6	4.6
Netherlands	85.7	2.9	Philippine Islands	90.4	4.3
Sweden	73.8	2.5	Netherlands Indies	75.3	3.5
Cuba	72.1	2.5	Germany	71.3	3.4
Union of South Africa	69.8	2.4	France	64.8	3.1
Mexico	69.7	2.4	British India	63.4	3.0
Belgium	66.4	2.3	Belgium	56.0	2.6
Brazil	66.0	2.3	Argentina	52.2	2.5
Argentina	64.6	2.2	China	51.7	2.4
Australia	60.5	2.1	Mexico	50.4	2.4
Italy	53.4	1.8	Colombia	48.7	2.3
Venezuela	52.3	1.8	Sweden	42.3	2.0
U. S. S. R.	50.2	1.7	Netherlands	35.0	1.6
Total 18 countries	2,258.0	77.4	Total 18 countries	1,585.2	74.8
Total all countries	2,921.3	100.0	Total all countries	2,122.1	100.0

Department Store Trade

For the three weeks ended September 23, total sales of the reporting department stores in this District were approximately 2½ per cent higher than in the corresponding period of September, 1938, which was a relatively good month for retail trade. The rate of sales for this portion of September showed somewhat more than the usual seasonal advance over August.

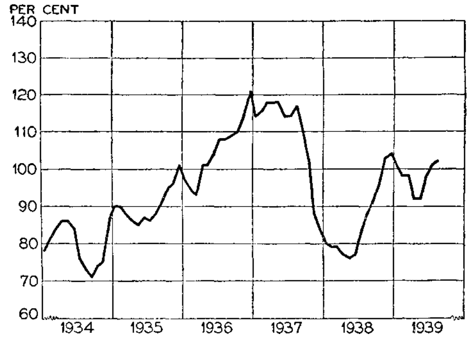
In August total sales of the reporting department stores in this District were about 5½ per cent higher than last year, a somewhat larger advance than in the previous two months. The New York and Brooklyn, Buffalo, and Rochester stores reported larger increases in sales than in either June or July, and stores in the Hudson River Valley District, Westchester and Stamford, and Niagara Falls also showed greater gains over last year than in July. Department stores in the remaining localities, however, registered less favorable sales comparisons than in the previous month. Sales of leading apparel stores in this District were about 10 per cent higher than last year, the largest year-to-year percentage increase in over two years.

Locality	Percentage change August, 1939 compared with August, 1938 — Net sales	Stock on hand end of month	Per cent of accounts outstanding July 31 collected in August — 1938	1939
New York and Brooklyn	+ 5.7	—3.3	43.4	42.9
Buffalo	+14.4	—0.7	42.8	41.4
Rochester	+ 7.8	+2.7	50.1	54.4
Syracuse	+ 5.8	+6.0	38.0	37.8
Northern New Jersey	+ 2.3	0	37.3	35.6
Bridgeport	+ 4.5	+7.1	38.6	38.3
Elsewhere	+ 4.7	+4.4	31.3	31.9
Northern New York State	— 5.1	....	....	....
Southern New York State	+ 2.4	....	....	....
Central New York State	+ 6.0	....	....	....
Hudson River Valley District	+ 3.4	....	....	....
Westchester and Stamford	+ 7.1	....	....	....
Niagara Falls	+ 9.7	....	....	....
All department stores	+ 5.7	—1.8	41.5	40.9
Apparel stores	+10.1	—4.6	34.4	34.5

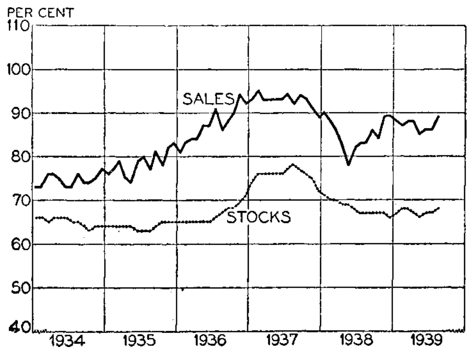
Department Store Sales and Stocks, Second Federal Reserve District (1923-25 average = 100)

	1938	1939		
	Aug.	June	July	Aug.
Sales, unadjusted	64r	87	63	67
Sales, seasonally adjusted	85r	90	89	90
Stocks, unadjusted	75	73	67	74
Stocks, seasonally adjusted	79	77	77	78

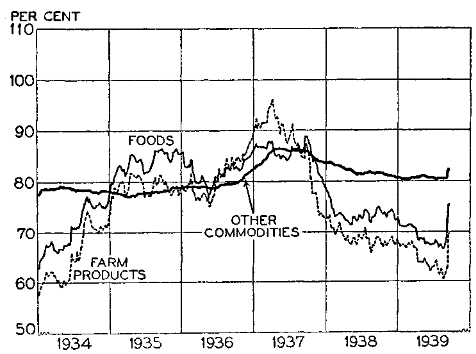
r = Revised.



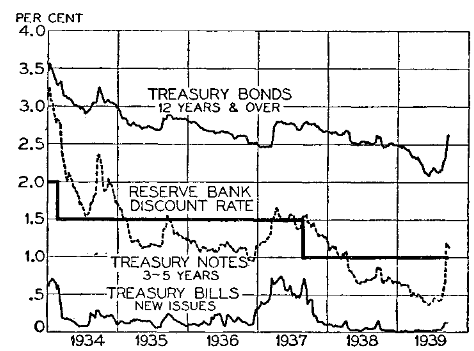
Index of Physical Volume of Industrial Production, Adjusted for Seasonal Variation, (1923-25 average = 100 per cent)



Indexes of Value of Department Store Sales and Stocks, 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)



Money Rates in New York City

Business Conditions in the United States

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

INDUSTRIAL activity, which had increased substantially during the summer, showed a sharp advance in the first half of September after the outbreak of war in Europe. Prices of basic commodities and equity securities rose sharply while prices of high grade bonds declined.

Production

In August, the Board's seasonally adjusted index of industrial production was at 102 per cent of the 1923-1925 average as compared with 101 per cent reached in July. Volume of manufacturing production increased further, but mineral production declined, owing to a temporary curtailment in output of crude petroleum. In the iron and steel industry output increased somewhat further in August and rose sharply in the first half of September, steel ingot production reaching a rate of 70 per cent of capacity in the week ended September 16 as compared with about 63 per cent at the beginning of the month. Automobile production showed about the usual sharp seasonal changes in this period as the shift to new model production was being made. Output of plate glass increased sharply. Production of nondurable manufactures advanced in August, reflecting chiefly increased activity at cotton and woolen textile mills. At meat packing establishments activity declined less than seasonally, while at flour mills, where output has been at a high rate in recent months, there was not the usual large seasonal increase. Shoe production advanced seasonally. At coal mines output increased by about the usual seasonal amount and shipments of iron ore were at the highest rate of this season. Petroleum production declined sharply during the latter half of August, reflecting shutdowns of wells in most of the principal oil producing States, but increased rapidly in the first half of September when the wells were reopened.

Value of construction contracts, as reported by the F. W. Dodge Corporation, increased somewhat in August, owing to larger awards for publicly financed projects, including several large dams and an increased volume of United States Housing Administration projects. Private residential building showed little change, although there is usually some seasonal decline. Other private construction, which in July had been the highest for any month in two years, declined in August.

Distribution

Department store sales increased more than seasonally from July to August. The Board's adjusted index advanced from 86 to 89 per cent of the 1923-1925 average and was at about the level reached in the latter part of last year. Sales at variety stores showed little change in August.

Freight car loadings rose somewhat further in August, reflecting chiefly continued increases in shipments of coal and miscellaneous freight.

Commodity Prices

Prices of most basic foodstuffs and industrial materials advanced sharply in the first half of September. Prices of wheat, corn, sugar, cocoa, and vegetable oils as well as of hides, rubber, wool, zinc, and tin showed the largest increases. The general level of wholesale commodity prices as measured by the Bureau of Labor Statistics index rose 3.1 points and in the week ended September 9 was at 78.4 per cent of the 1926 average, about the same level as a year ago.

Agriculture

Crop prospects showed some improvement on September 1 over a month earlier, according to the Department of Agriculture. Indications are that production of all leading crops except cotton will be average or above average in volume. A cotton crop of 12,380,000 bales, about 10 per cent below the 1928-1937 average, is forecast. This compares with a crop of 11,940,000 bales in 1938 and an estimated world consumption of 11,265,000 bales of American cotton during the past season.

Government Security Market

Average yields on long term Treasury bonds, which had advanced fractionally since last June, increased sharply by about ½ of 1 per cent in the latter half of August and early September. In pursuance of the System's policy of endeavoring to maintain orderly conditions in the money market, the Federal Reserve Banks during the first half of September increased their holdings of Government securities by about $400,000,000. On September 1 the Board of Governors of the Federal Reserve System announced that the Federal Reserve Banks are prepared at this time to make advances on Government obligations to member and nonmember banks at par and at the same rate of discount.

Bank Credit

Total investments held by reporting member banks in 101 leading cities declined during the first half of September. At New York City banks the decline represented the redemption at maturity of Federal Farm Mortgage Corporation bonds and at banks in other leading cities it represented the sale of Treasury bills and bonds. Commercial loans of city banks showed a substantial growth during August and the first half of September.