

# MONTHLY REVIEW

## of Credit and Business Conditions

Second Federal Reserve District

Federal Reserve Bank, New York

November 1, 1939

### Money Market in October

There have been indications in all parts of the money market, during October, that the effect of the war in Europe, as a day-to-day influence, was diminishing, and that more immediate emphasis was being placed on the domestic situation and outlook. The war in Europe, of course, is still a factor in all calculations of future possibilities, but the first shock of the outbreak of war appears to have been assimilated.

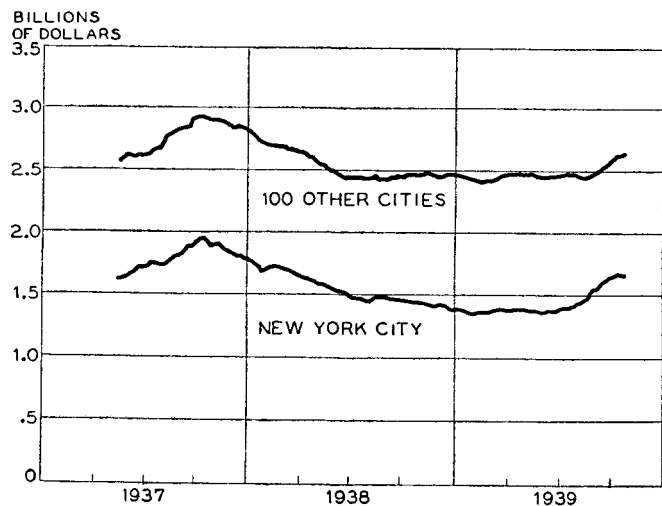
Prices of Government and other high grade bonds, which, despite the continued accumulation of idle funds in the banks, and with other large investors, had experienced early in September the most rapid price declines in several years, showed an irregular but substantial recovery in October. There was evidence that expectations of such a large expansion in commercial loans, as would cause a rise in interest rates, had been revised downward, as well as evidence of reduced sensitivity to news from Europe, and investment buying of high grade securities was resumed on a moderate scale by banks and other investing institutions. In general, offerings of such securities for sale were light, so that on days when buying was most active there were sharp advances in prices. Conversely, however, when buying orders were withdrawn, prices fell away rather easily on small volume. At the highest points reached in October, long term Government and corporate bonds showed average recoveries of approximately half the preceding declines.

On the other hand, despite a further substantial rise in business activity and the prospect of further gains during the remainder of the year, buying interest in stocks and lower grade bonds diminished considerably, and prices of such securities showed irregular fluctuations, with little net change for the month as a whole. Hesitancy in the markets for these securities apparently reflected less optimistic estimates as to the influence of war demands on business in this country, regardless of the outcome of neutrality legislation, and fear that if no material expansion in export business develops within the next few months, the growing domestic demands arising out of greater employment and increased National income may not be sufficient to sustain industrial activity at the levels reached in the fourth quarter of this year. The reappearance of labor troubles in some important industries and concern over cost-price relationships also contributed to this situation. Industrial activity rose to approximately the highest levels in the

last ten years, while prices of industrial stocks remained nearly 30 per cent below the peak levels reached in the first quarter of 1937 and railroad stocks nearly 50 per cent below, and prices of the lower grade bonds also remained far below the levels reached early in 1937.

Some further increase in commercial and industrial loans was reported by member banks in the principal cities during October, but the rate of increase diminished considerably; in fact there was very little increase after the second week of the month. As the accompanying diagram shows, the demand for such loans during early autumn this year was far greater than in the corresponding period last year, both in New York City and in other principal cities, but the volume of loans outstanding at the end of the month was still much below the volume reached during the period of inventory accumulation in the autumn of 1937. The increase since the end of June this year has amounted to nearly \$280,000,000 in New York City, and \$180,000,000 in 100 other principal cities, but in each case the volume on October 25 remained nearly \$300,000,000 less than at the October, 1937 peak. Security loans have remained at very low levels. Thus far, therefore, the expansion in the demand for bank loans has not been sufficiently great to have an appreciable effect on the money market position, or to relieve materially the dependence of banks upon investments for income.

Meanwhile, the volume of excess reserves has shown a further, though more gradual increase, rising \$200,000,000



Commercial, Industrial, and Agricultural Loans of Weekly Reporting Member Banks in New York City and in 100 Other Cities

in the four weeks ended October 25, to cross the 5½ billion dollar level. The continued, but slower growth of excess reserves reflected in part a similar movement in the gold stock of this country, which increased \$114,000,000 in the four week period, after rising nearly \$300,000,000 in September, and about \$400,000,000 in August. Net Government disbursements also continued to add to the amount of member bank reserves, although the increase in reserves from this source was limited in the latter part of October by the sale of an extra \$50,000,000 of Treasury bills, in each of three weeks beginning with the week of October 16. This increased supply of Treasury bills found a ready market at low rates (well below the temporarily higher rates of early September), the demand for these obligations responding to special factors connected with the approach of the year-end statement period, as well as to the large volume of idle funds.

#### MONEY RATES

The principal changes in money rates during October were declines in yields on Government securities of all maturities and on other high grade securities, which accompanied the recovery in prices of such securities previously discussed. Yields on new Treasury bills and on outstanding Treasury notes declined to the lowest levels since the latter part of August, and as the following table indicates, were approximately the same at the end of October as a year ago. Yields on long term Treasury bonds also declined during the month, and were only slightly higher at the end of October than a year previous.

Money Rates in New York

	Oct. 31, 1938	Sept. 30, 1939	Oct. 30, 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.....	½-¾	½-¾	½-¾
Bills—90 day undorsed.....	¾	¾	¾
Average yield on Treasury notes (3-5 years)...	0.69	0.98	0.65
Average yield on Treasury bonds (not callable within 12 years).....	2.47	2.75	2.50
Average rate on latest Treasury bill sale 91 day issue.....	0.026	0.082	0.028
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.

#### MEMBER BANK CREDIT

The largest change in loans and investments of weekly reporting member banks during the four weeks ended October 25 was an increase of \$210,000,000 in holdings of Treasury bills, which more than absorbed the increase in the available supply that resulted partly from the sale by the Treasury of \$100,000,000 more bills than matured during the period, and partly from a reduction of \$68,000,000 in Reserve Bank holdings of Treasury bills. The reporting New York City banks increased their holdings by \$156,000,000 during the four week period, and reporting member banks in other principal cities increased their holdings by \$54,000,000. Investments by these banks in Treasury bonds, notes, and Government guaranteed securities showed small net reductions.

Total loans of the reporting banks increased moderately, partly as a result of the further increase in commercial and industrial loans previously commented upon,

and partly as a result of an increase in the item of "loans to brokers and dealers in securities" in the last two weeks, which apparently reflected largely borrowings by dealers in connection with Government refunding operations.

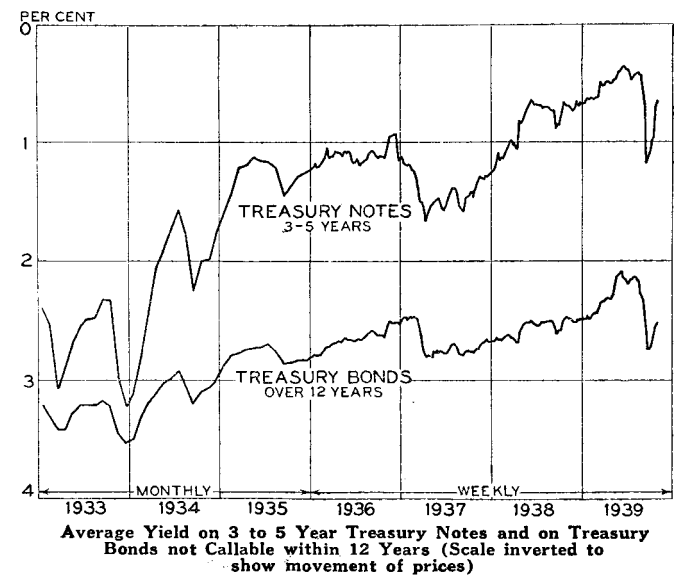
Demand deposits rose to new high levels in New York City and also in other principal cities, and the volume of interbank deposits also continued to rise, although at a less rapid rate than in September.

#### GOVERNMENT SECURITIES

Trading in the Government security market was very quiet during the first half of October, but became somewhat more active in the second half of the month. Prices recovered further from the low levels reached in September, and by October 24, the average price of Treasury bonds not callable within 12 years had risen 4½ points from the September 25 low, representing a recovery of nearly one half of the preceding decline, the largest part of which occurred immediately following the outbreak of war. At the October 24 level, the average yield on long term bonds was down to 2.48 per cent, as compared with the September high of 2.79 per cent and the June low of 2.07 per cent. During the period after October 24, Treasury bond prices developed some irregularity, and a decline of about ¼ of a point occurred in the average price of long term bonds, so that the average yield rose to 2.50 per cent.

Prices of Treasury notes, like those of Treasury bonds, advanced considerably further in the first part of October, and the average yield on 3 to 5 year maturities declined from 0.98 per cent at the end of September to 0.62 per cent on October 25. This level compares with 1.30 per cent at the lowest point of prices on September 6 and the record low yield of 0.35 per cent last June. In the closing days of October, prices of Treasury notes also eased slightly.

Between October 17 and October 31, the Treasury made several announcements concerning offerings of new securities, in addition to the weekly Treasury bill issues, which had been increased from \$100,000,000 to \$150,000,000 beginning with the issue offered on October 13. The first announcement, on October 17, was of an



offering of Commodity Credit Corporation 1 per cent notes due November 15, 1941, dated November 2, 1939, to be issued only in exchange for Commodity Credit Corporation  $\frac{3}{4}$  per cent notes due November 2, outstanding in the amount of \$206,000,000. The second offering, on October 24, was of 1 per cent Treasury notes due March 15, 1944, dated November 1, 1939, to be issued only in exchange for  $1\frac{3}{8}$  per cent Treasury notes due December 15, 1939, outstanding in the amount of \$526,000,000. Both of these exchange offerings were well received and all but small amounts of the Commodity Credit Corporation issue due November 2, and of the Treasury note issue due December 15, were exchanged for the new securities offered. On October 30, the Secretary of the Treasury announced that on the following day the Treasury would offer on behalf of the Reconstruction Finance Corporation \$250,000,000 of R.F.C. notes, the proceeds to be used by the R.F.C. to retire indebtedness to the Treasury. As far as the market is concerned, this offering which is a 1 per cent note issue dated November 10, 1939 and maturing July 1, 1942 will constitute the borrowing of new money, the first such borrowing, with the exception of the increased Treasury bill offerings, since the outbreak of the war in Europe.

Treasury bill issues in October included \$100,000,000 issues in each of the first two weeks of the month and \$150,000,000 issues in the last three weeks (including the issue which was bid for on October 30 and allotted as of November 1). The \$100,000,000 issues were sold at average rates of 0.036 and 0.022 per cent, and the \$150,000,000 issues at 0.033, 0.027, and 0.028 per cent, continuing the decline from the somewhat higher rates for Treasury bills temporarily reached in the first part of September. Maturities during October (and on November 1) amounted to approximately \$500,000,000, so that \$150,000,000 of additional funds were raised through Treasury bill financing operations in October.

#### COMMERCIAL PAPER AND BILLS

Following an advance during September of about  $\frac{1}{8}$  per cent in the prevailing range of rates for open market commercial paper, the underlying ease of the money situation became manifest again in October. Whereas in the latter part of September the bulk of the sales of prime commercial paper were made at  $\frac{3}{4}$  per cent, the higher quotation in the range of  $\frac{7}{8}$ - $\frac{3}{4}$  per cent then established, sales during the latter part of October were largely made at  $\frac{5}{8}$  per cent. In addition, there was a reappearance of small amounts of especially choice paper of short maturity, offered at  $\frac{1}{2}$  per cent. As for many months past, the supply of new paper was quite inadequate to cover the investment demand. Reporting dealers had outstanding at the end of September an aggregate of \$209,300,000 of paper, the largest amount in eleven months. This total compares with \$201,100,000 a month earlier and \$212,300,000 a year ago.

Trading in the bill market continued very limited during October, and no change occurred in dealers' quoted rates. As shown in the accompanying tabulation, a decline of \$19,000,000 to \$216,000,000 occurred during September in the amount of bankers acceptances outstanding. This decline was a result of a drop in the category of bills based on goods stored in or shipped between foreign countries, which was caused by the termination

of the German Standstill agreement. Reductions in all classes of bills, except domestic shipment and dollar exchange acceptances, have contributed to the \$45,000,000 decline in the outstanding volume of bills from the level of September, 1938.

(Millions of dollars)

Type of acceptance	Sept. 30, 1938	Aug. 31, 1939	Sept. 30, 1939
Import.....	89	79	78
Export.....	57	40	40
Domestic shipment.....	9	8	10
Domestic warehouse credit.....	47	31	33
Dollar exchange.....	2	18	18
Based on goods stored in or shipped between foreign countries.....	57	59	37
Total.....	261	235	216

#### Security Markets

Following the sharp advance in stock prices which occurred during the first part of September after the outbreak of war, the general average of share prices has fluctuated within narrow limits. Prices tended a trifle lower in the first half of October, but moved slightly higher in the second half of the month. As a net result of these small movements and similar ones in the latter part of September, the general average of stock prices near the end of October was close to the highest level reached in September. With respect to the major groups, industrial stocks near the end of October were 3 per cent below the September 12 high, and railroad shares were 5 per cent below the high which was reached on September 27; public utility shares, however, which showed only a small advance in September, rose somewhat further in October. The volume of trading in stocks on the New York Stock Exchange was much less in October than in September; on no day did turnover exceed 2 million shares, and for the month as a whole averaged 1,100,000 shares daily, as compared with 2,600,000 shares in September.

Corporation bond prices made further partial recoveries in October from the September lows. In the case of highest grade corporate issues, of the type rated Aaa by Moody's Investors Service, there was an advance of  $3\frac{1}{2}$  points, which, with the initial recovery in the latter part of September, has resulted in a total recovery of  $5\frac{1}{4}$  points. The preceding decline from the July highs had amounted to about 10 points, of which  $7\frac{1}{2}$  points occurred in September. As a result, highest grade corporate bonds are now selling at an average price some  $4\frac{3}{4}$  points below their recent highs; the net change in average yield since July has been from 2.88 per cent to 3.09 per cent, according to the data of Moody's Investors Service. Another average of high grade corporate bond yields, however, measures the net rise in yields during recent months as nearer to one third of one per cent. Less high grade corporate issues (those rated Baa by Moody's), which, after a fairly sharp drop in the latter part of August and first few days of September, rose considerably in September, advanced about  $1\frac{3}{4}$  points further in October. This rise in the average reflected entirely advances in industrial and public utility issues, as railroad bonds of this grade, which had shown substantial advances during most of September, were little changed

for October. As compared with the highs reached in August, Baa bonds at the end of October remained about 1 point lower, on the average.

A number of foreign bonds listed in this market showed recoveries in October. Reflecting this movement, the New York Times average of 10 foreign bonds, which had dropped 16 points in the first three weeks of September, recovered 9 points in October.

### New Financing

During the past month sales of new security issues continued at a low ebb. All the larger bond issues in process of registration with the Securities and Exchange Commission were deferred as effective dates of registration approached, and toward the end of the month the Tide Water Associated Oil Company asked permission to withdraw its statement, originally filed on June 30, covering the issue of \$50,000,000 of debentures and serial notes. The unusually small supply of municipal offerings, together with an increased investment demand, resulted, during the latter part of the month, in keen competition among investment dealers for new municipal issues.

Of the public offerings of corporate issues during October, the largest was \$8,000,000 of 2½ per cent equipment trust certificates of the Atchison, Topeka and Santa Fe Railway, offered on October 17. These certificates, the proceeds from which will be used for the purchase of new rolling stock, mature serially from 1940 through 1949; they were awarded to a syndicate at 101.899, and were quickly taken up by investors at prices yielding from 0.40 to 2.40 per cent. On October 26, the Northwestern Electric Company (of Washington) sold to a group of four insurance companies \$6,700,000 of 4 per cent first mortgage bonds, \$5,400,000 of the proceeds of which are to be used to refund outstanding 6's. Announcement was made during October that the interested public authorities had approved the private sale to insurance companies of \$66,600,000 of 3¾ per cent first mortgage refunding bonds of the New York Power and Light Corporation, for which arrangements had been concluded in September. In addition to the month's public offerings and private sales, an exchange offer of the E. I. du Pont de Nemours and Company, of \$4.50 cumulative preferred stock for 6 per cent debenture stock outstanding in the amount of \$109,000,000, appears to have been successfully consummated.

Within the past month, six railroads have requested Interstate Commerce Commission authority to issue equipment trust certificates, the proceeds of which, amounting to about \$20,000,000, would be used for the purchase and repair of rolling stock; however, it appears that at least four of these issues will be offered to the Reconstruction Finance Corporation. Announcements have been made of the contemplated private sale of Philadelphia Electric Company 2¾ per cent one to ten year notes, in the amount of \$10,000,000, together with 50,000 shares of no par value preferred stock of the same company, and of a forthcoming public offering of \$39,000,000 of Jersey Central Power and Light Company first mortgage bonds. Several large municipal offerings have been scheduled for next month. These include \$30,000,000 of serial bonds of the City of New York, and the same amount of notes of the State of Pennsylvania.

### Foreign Exchanges

Foreign exchange dealings in the New York market continued extremely limited during October. With respect to the New York rate for the pound sterling, which during the previous month had pursued a course more or less independent of the London official market, quotations during the greater part of October held fairly close to the Bank of England's official buying and selling quotations for the pound, which remained at \$4.02 and \$4.04, respectively. Some demand for sterling developed at the turn of the month and the New York rate rose to as high as \$4.05½ on October 4. Subsequently, however, sterling was reported to have been made available in the London market, and the New York rate eased somewhat to fluctuate narrowly around \$4.03 until October 13, when a decline to a low of \$3.96 occurred, owing in large part to pessimistic reactions to Prime Minister Chamberlain's statement in the House of Commons on the previous day. In the succeeding days, however, the rate returned to around \$4.01 when it became known that sterling arising out of approved transactions was being absorbed by the British control. Toward the end of October the rate eased somewhat to close the month at about \$3.99½, as against \$4.01¾ at the end of September. In the forward market, the discount on three month forward sterling in New York narrowed from 3¾ per cent per annum to 2⅞ per cent. The official London quotation for one month dollar contracts, which was lowered from a premium equivalent to 3 per cent per annum to the equivalent of 2¼ per cent toward the end of September, remained at this lower level during the past month.

The French franc's peg to sterling continued during the past month. The New York rate for the franc declined, along with sterling, to reach a low of \$0.0224½ on October 13, but subsequently recovered to close the month at \$0.0226¾, for a net loss of only 1⅜ points for the month as a whole.

There were market indications of some pressure against the so-called neutral currencies during most of the past month. In the case of the belga, the New York rate declined to \$0.1673 during the first week of October and after firming to \$0.1688 on October 18, again turned downward to reach \$0.1663 on October 28, the lowest rate since June, 1933. At the close of the month, belgas were quoted at \$0.1669, as compared with \$0.1687 a month earlier. Guilders depreciated in this market from \$0.5331 at the end of September to \$0.5310, and a net decline of 16½ points brought Swiss francs to \$0.2243½ at the end of October. With respect to other Continental exchanges, it was confirmed during October that, based on the latest official rates for dollars of the Hungarian National Bank, buying and selling rates of the Hungarian pengoe in New York are now equivalent to \$0.1714 and \$0.1760. These rates represent a considerable depreciation from the previous level of about 19½ cents.

Among the non-European currencies, the discount on Canadian dollars in this market widened to 11¾ per cent on October 6, the largest discount in a number of years, but subsequently narrowed, to close the month at about 10⅞ per cent, only slightly wider than at the end of September. Toward the end of October it was reported that henceforth the Japanese yen would be directly linked to the dollar at buying and selling rates of \$0.2344

and \$0.2347. A firmer tendency was shown during the latter part of October in the Shanghai dollar, which rose to 5 9/32 pence, the highest level since the middle of last July.

**Gold Movement**

The volume of gold imports into the United States declined sharply in October and total receipts were the smallest for any month since July, 1938. Imports, however, were supplemented by releases of gold previously earmarked here; the amount of gold held under earmark for foreign account at the Federal Reserve Bank of New York showed a net decrease of about \$79,000,000 during October to approximately \$1,054,000,000. It is estimated that the gold stock of the United States increased approximately \$160,000,000 during the month, reaching a new high of \$17,090,000,000. The past month's increase was not much more than one-half as large as the September rise.

During the three weeks ended October 20, gold imports into the United States, as reported by the Department of Commerce, totaled \$40,600,000, of which \$9,400,000 came from Canada, \$7,000,000 from Japan, \$6,300,000 from England, \$4,900,000 from Italy, \$4,800,000 from Australia, \$2,200,000 from Norway, \$1,400,000 from Hong Kong, and \$1,000,000 from India.

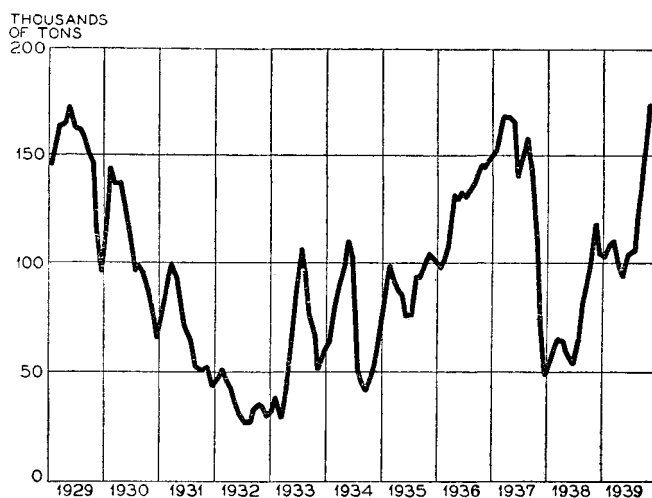
**Central Bank Rate Changes**

The Bank of England reduced its discount rate on October 26 to 2 per cent, following a reduction from 4 to 3 per cent on September 28. The rate was thereby returned to the level which had been maintained without interruption from June 30, 1932 until August 24, 1939, when the rate was raised to 4 per cent. The return to the pre-war rate of 2 per cent within two months in this case contrasts with the eight year period which elapsed during and after the World War before the 1914 rate of 3 per cent was reestablished in July, 1922.

Effective October 10, the National Bank of Denmark raised its discount rate to 5½ per cent from 4½ per cent, the latter rate having been in force since September 20. Before the outbreak of hostilities in Europe the Danish bank rate had been 3½ per cent.

**Production and Trade**

The pronounced rise in business activity which followed the outbreak of war in Europe continued in October, although apparently at a somewhat less rapid pace. Although the steel mill operating ratio leveled out as the month progressed, as some plants reached capacity operations and delays were encountered in bringing older and higher cost units into operation, output was estimated to have exceeded 90 per cent of theoretical capacity at the end of October. Moreover, the actual output of steel ingots appears to have reached a point roughly comparable with the peak months of 1929 and 1937, as the accompanying diagram indicates. In the cotton textile industry, while new business booked in October was said to have been below current production, the mills were reported to have increased operations as a result of the exceptionally large orders placed in



Daily Average Production of Steel Ingots (October, 1939 estimated)

September. Electric power production and railway freight traffic also advanced further. Less than the expected seasonal increase occurred in the production of automobiles, however, as labor troubles curtailed operations at the plants of a major producer.

September data on business activity indicate a rather general acceleration of the increase in activity that had been in progress during the summer. Whereas in many

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

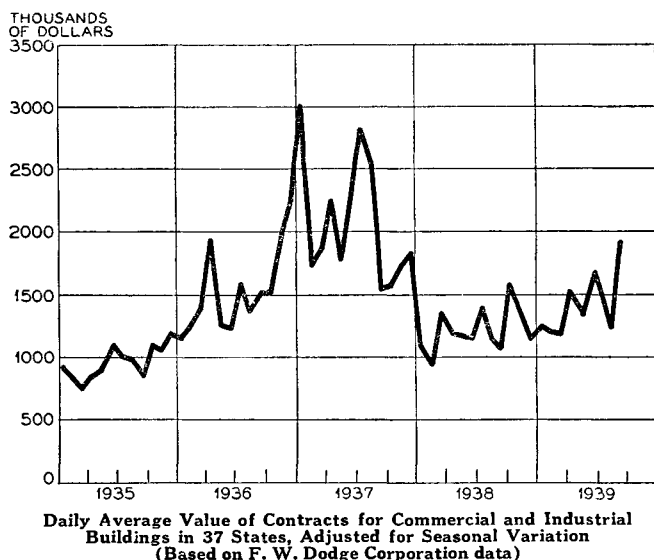
	1938	1939		
	Sept.	July	Aug.	Sept.
<b>Industrial Production</b>				
Steel.....	60	76	82	94
Passenger cars.....	39	57	56r	97
Motor trucks.....	48	88	65	70
Bituminous coal.....	76	82	85	90p
Crude petroleum.....	84	88	64	79p
Electric power.....	90r	95	96p	97p
Cement.....	55	62	60	..
Cotton consumption.....	90	105	106	110
Wool consumption.....	95	116	119	126p
Shoes.....	105	110	109p	99p
Meat packing r.....	92	93	95	97
Tobacco products.....	90	86	93	89
<b>Employment</b>				
Employment, manufacturing, U. S. r.....	91	96	97	100p
Employee hours, manufacturing, U. S. r.....	77	82	85	87p
<b>Construction</b>				
Residential building contracts.....	42	43	53	52
Nonresidential building and engineering contracts.....	65	50	55	59
<b>Primary Distribution</b>				
Car loadings, merchandise and misc.....	75	77	78	85
Car loadings, other.....	70	81	81	93
Exports.....	78	87	92	94p
Imports.....	73	75	71	81p
<b>Distribution to Consumer</b>				
Department store sales, U. S.....	83	84	87	88p
Department stores sales, 2nd District... ..	80	79	79	83p
Chain grocery sales r.....	94	100	107	104p
Other chain store sales.....	92	100	94	101p
Mail order house sales.....	92r	97	101	105
New passenger car registrations.....	55	75	73p	81p
<b>Velocity of Deposits*</b>				
Velocity of demand deposits, outside New York City (1919-25 average = 100).....	61	58	58	60
Velocity of demand deposits, New York City (1919-25 average = 100).....	38	31	30	34
<b>Prices and Wages*</b>				
General price level (1913 average = 100).....	154	153p	152p	155p
Cost of living (1913 average = 100).....	143	146r	146	148p
Wage rates (1926 average = 100).....	109	111p	111p	..

pPreliminary. rRevised. \*Not adjusted for trend.

years there has not been a great deal of change in steel production between August and September, this year daily average output rose 16 per cent between these two months, as the average rate of steel mill activity increased from 62 to 72 per cent of estimated capacity. The increase in activity was also substantial in the cotton textile industry, where the daily rate of mill consumption of cotton increased 12 per cent. Orders received by the mills in the early part of the month were sufficient to reduce their stocks substantially and to create large backlogs of orders for future delivery. Automobile assemblies rose sharply as a number of manufacturers approached volume production of 1940 models, and figures for bituminous coal production indicated an increase of more than seasonal proportions. General indicators of business activity, such as electric power production and railway freight traffic, also showed considerable gains.

### Building

Construction contracts in the 37 States included in the F. W. Dodge Corporation survey were awarded during September at an average daily rate 8 per cent greater than in August. The increase from the previous month occurred despite substantial reductions in contracts for public works projects and buildings for public purposes. Public utility awards were double the August volume, owing principally to the placing of large contracts for additional units of the Chicago subway. Contracts for commercial and industrial building showed a 55 per cent increase over August, and residential awards were 6 per cent larger. Comparisons with a year previous showed similar tendencies in the various types of construction, and total contracts were 7 per cent larger. For the first nine months of 1939, total construction contracts showed a 23 per cent gain over the corresponding period of 1938, reflecting to a considerable extent the large increases early this year in contracts for residential building. Commercial and industrial building awards registered an increase of 21 per cent over the first nine months of last year, and contracts for public works and other types of construction showed smaller gains.



As the accompanying diagram indicates, the sharp increase in commercial and industrial construction contracts in September carried the volume of such contracts to the highest point since 1937. The volume of factory and commercial construction tends in a general way to fluctuate with business activity, and after increasing considerably from 1935 to 1937, was curtailed sharply during the latter half of 1937 and early months of 1938. Subsequently there was a gradual recovery, and the September increase carried contracts for such construction to a level approximately twice that of February, 1938, after allowing for seasonal factors.

In the New York and Northern New Jersey area, the daily rate of contract awards in September showed a decrease of 17 per cent from the comparatively large volume in the previous month, owing to substantial curtailment in contracts for public works projects and public purpose building. Other major types of construction in this area showed increases, including in the public utility classification an award for an electric generating station, and, in the residential category, another contract for the large scale housing project of the Metropolitan Life Insurance Company. Contracts for commercial and industrial construction showed a 33 per cent advance over the previous month.

During the first three weeks of October, total construction contract awards in the 37 States declined 15 per cent from the September average; there were reductions of 31 per cent in heavy engineering contracts, 9 per cent in nonresidential awards, and 5 per cent in residential contracts. Compared with the first three weeks of October last year, total construction contracts were 22 per cent lower, owing to large decreases in awards for nonresidential building and heavy engineering projects.

### Employment and Payrolls

The Secretary of Labor estimates that the number of workers employed in all manufacturing industries in the United States increased by more than 200,000 between the middle of September and the middle of October, despite a large seasonal decrease in the canning industry and an industrial dispute involving about 50,000 automobile workers. The October increase, following sizable gains in August and September, indicates a net addition to factory working forces of over 700,000 persons since July. It is estimated that less than 300,000 of these additional workers would have been employed on the basis of the usual seasonal expansion during these months.

Between August and September, more than 500,000 persons were added to nonagricultural working forces. In addition to the large gain in factory employment, increases were reported for retail and wholesale trade, mining, and the railroads. As compared with a year ago, it is estimated that there were approximately 1,150,000 more workers employed in nonagricultural pursuits in September, 1939.

During September both factory employment and payrolls in the United States increased about 4 per cent, whereas usually only slight increases occur at this time of the year. Almost every major industrial group showed larger working forces, but the most pronounced gains were centered in the durable goods industries. The out-

standing advance for the period was registered by the automobile industry which employed over 40 per cent more workers than in August, as manufacturers commenced volume production on 1940 models. Other large gains occurred in the steel and electrical machinery industries, and a sizable increase of a seasonal nature occurred at cotton mills. The relatively few declines reported were generally seasonal in character. Total factory employment in September was 9 per cent larger than in the same month last year, and payrolls were 15 per cent higher.

The United States Department of Agriculture's estimate of farm employment on October 1, however, was the lowest for this date in the fourteen year period covered by the records. Although agricultural working forces increased by more than 200,000 persons during September, it is estimated that there were about 170,000 fewer workers employed than a year ago.

In New York State, factory employment increased 4 per cent between August and September, representing somewhat more than the ordinary gain at this time of year, and factory payrolls increased 3 per cent, about the usual seasonal advance for September. Failure of payroll figures to increase more was apparently traceable to observance of religious holidays and Labor Day during the reporting period. The expansion in working forces was well diversified; all industrial areas, and almost all major industrial groups shared in the advance. The largest gain in employment and payrolls during the period was reported by the canning and preserving industry which more than doubled its August working force. Total factory employment in September was 9 per cent greater than in the same month last year, though still slightly less than in September, 1937, and payrolls were 10 per cent higher than a year ago.

### Commodity Prices

In October commodity prices fluctuated within much narrower ranges than during September and in many cases quotations were considerably below the highest levels reached in September following the outbreak of the war.

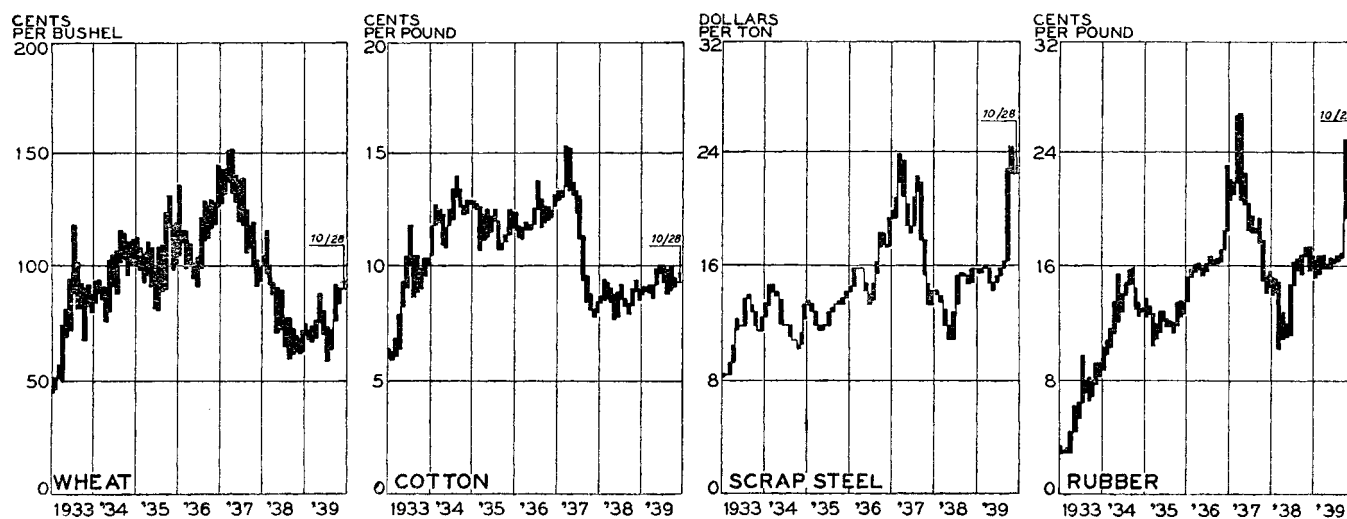
Influenced by rumors of peace in Europe and by large

world supplies, cash wheat prices declined about 4 cents to a low point on October 9, around 83 or 84 cents a bushel, but rallied to show little net change for the month as a whole when severe drought conditions in the Southwest threatened the new winter crop. Cash corn moved irregularly and showed a slight net loss for the month as a whole, reflecting in part the arrival of large supplies of the old crop on the market. The average price of hogs declined 30 cents to \$6.82 a hundredweight; raw sugar dropped 77½ points to 2.90 cents a pound, 2 points below the August 31 figure; and ½ cent losses occurred in the quotations for hides and rubber. Supported by a high level of textile mill activity, cotton prices remained firm, and average quotations for domestic wool established a new high since March, 1937. Silk prices reached \$3.55 a pound on October 23, a new high level for almost a decade, owing to scarcity of spot silk in Japanese markets and apprehension concerning the imposition of penalty duties by the United States after the abrogated American-Japanese trade treaty expires on January 26, 1940.

A generally firm undertone continued to prevail in the metal markets during October. The domestic price of copper was increased ½ cent to 12½ cents a pound in the first few days of October, and the export price reached 13 cents by the end of the month. Zinc and lead maintained the levels reached in September, and tin, after declining 5 cents early in October to 55 cents a pound, remained close to that price during the remainder of the month. Scrap steel at Pittsburgh reached \$24.25 a ton, 50 cents above the highest level of 1937, but later settled back to \$22.50.

	Pre-crisis Aug. 15	Pre-war Aug. 31	Subsequent high	October 30
Wheat, Kansas City, bu.....	\$0.66¾	\$0.69¾	\$0.91½	\$0.87¾
Corn, bu.....	.44¾	.45½	.63½	.48½
Hogs, cwt.....	5.78	6.56	8.98	6.82
Steers, cwt.....	8.63	9.13	10.75	9.58
Hides, lb.....	.11	.11	.17	.16
Sugar, lb.....	.0282	.0292	.0385	.0290
Cotton, 10 So. mkts., lb.....	.0896	.0855	.0944	.0896
Wool, lb.....	.71	.72	1.10	1.08
Silk, lb.....	2.74	2.65	3.55	3.48
Rubber, lb.....	.16¾	.16½	.25	.20½
Copper, domestic, lb.....	.10½	.10½	.12½	.12½
Tin, lb.....	487½	4950	.75*	.5550
Scrap steel, Pittsburgh, ton.....	16.25	16.25	24.25	22.50

\*Nominal.



Monthly Range of Wholesale Prices of Wheat, Cotton, Scrap Steel, and Crude Rubber (Latest date included is October 28)

## Foreign Trade

The value of this country's foreign trade increased during September both in comparison with August of this year and with September of last year. Exports amounting to \$289,000,000 showed a gain of 17 per cent over September a year ago and general imports at \$181,000,000 were 8 per cent larger. Imports for consumption, which include, in addition to imports of foreign goods entering immediate merchandising channels, withdrawals of certain imports from bonded warehouses, which were exceptionally large in September, reached a value of \$199,000,000, 15 per cent more than a year ago.

The following table by major economic divisions shows striking contrasts between the immediate effects on this country's exports of the outbreak of the present European war and of the World War. In general it appears from the table that, in the first month after the outbreak of the present war, United States exports have compared somewhat more favorably with a year ago than in preceding months, while in the first month after the beginning of the World War American exports suffered a large decline.

Percentage Change in Export Values

	Jan.-July, 1914 compared with Jan.-July, 1913	Aug., 1914 compared with Aug., 1913	Jan.-Aug., 1939 compared with Jan.-Aug., 1938	Sept., 1939 compared with Sept., 1938
<i>Major Export Groups*</i>				
Crude materials.....	+ 6	-65	-26	+12
Crude foodstuffs.....	-17	+ 7	-60	-48
Manufact'd foodstuffs.....	-20	-22	+ 7	+24
Semimanufactures....	- 7	-52	+ 7	+47
Finished manufactures	-16	-50	+ 3	+15
Total exports.....	-10	-41	- 8	+17

\*Based on domestic exports only.

In September, 1939, the gain of 12 per cent in exports of crude materials over a year ago was due principally to a 74 per cent increase in shipments of American cotton. Cotton exports to the United Kingdom were more than seven times as large as the relatively small amount in September last year, and the volume shipped to Belgium, Spain, Canada, and Italy also was materially larger; on the other hand, cotton exports to Germany ceased after the first week of September, and the quantity sent to Japan and certain other countries was greatly reduced. Exports of crude foodstuffs, while amounting to only about one-half the September, 1938 value, showed a smaller year-to-year reduction than in preceding months. The majority of manufactured foodstuffs, including wheat flour, canned fruits, and meat products, were exported in considerably larger volume than a year ago. Exports of wholly and partly finished manufactures showed large increases over a year ago, reflecting shipments of petroleum products, iron and steel mill products, industrial chemicals, aircraft, metal working machinery, passenger automobiles, and textile and rubber manufactures, some of which, however, were in smaller volume than in August.

Among the September imports for consumption, a 34 per cent increase over a year ago occurred in manufactured foodstuffs, which was accounted for in part by net withdrawals from warehouses of sugar, whiskey, and wines. Imports of wool, also released from warehouses in

substantial quantities in September, were almost two and a half times as large as a year ago. Silk receipts were nearly twice the September, 1938 value, owing in some measure to an additional price increase. Material increases also occurred in receipts of crude rubber, newsprint paper, copper, nickel, and tin. On the other hand, imports of coffee, cocoa, edible vegetable oils, flaxseed, woodpulp, diamonds, and the majority of finished manufactures were smaller than in September, 1938.

## Department Store Trade

Owing especially to a large gain in the third week of the month, total sales of the reporting department stores in this District during the three weeks ended October 21 were about 8 per cent above the corresponding 1938 period. The daily rate of sales for this portion of October showed about the usual seasonal advance over September which was a relatively active month for retail trade.

Total September sales of the reporting department stores in this District were about 6 per cent higher than last year, and the average daily rate of sales showed more than the usual rise from the August average. Department stores in all localities reported a larger volume of sales than in September a year ago, and the apparel stores registered a gain of almost 10 per cent.

Stocks of merchandise on hand in the department and apparel stores at the end of September continued lower than a year ago. Collections in September were at a somewhat higher rate than a year ago both in the department and apparel stores.

Locality	Percentage change September, 1939 compared with September, 1938		Per cent of accounts outstanding August 31 collected in September	
	Net Sales	Stock on hand end of month	1938	1939
New York and Brooklyn.....	+ 6.0	-2.5	46.0	46.7
Buffalo.....	+ 3.9	+5.2	40.9	42.4
Rochester.....	+ 5.4	+7.2	50.6	54.4
Syracuse.....	+ 9.8	+2.1	40.1	41.1
Northern New Jersey.....	+ 2.7	+1.9	38.0	38.1
Bridgeport.....	+20.4	+7.4	34.8	38.3
Elsewhere.....	+ 9.4	+3.1	32.3	33.4
Northern New York State.....	+ 7.9	.....	.....	.....
Southern New York State.....	+ 8.1	.....	.....	.....
Central New York State.....	+11.7	.....	.....	.....
Hudson River Valley District.....	+ 8.4	.....	.....	.....
Westchester and Stamford.....	+11.8	.....	.....	.....
Niagara Falls.....	+ 8.9	.....	.....	.....
All department stores.....	+ 5.8	-0.6	42.8	43.7
Apparel stores.....	+ 9.9	-4.6	36.9	38.9

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

	1938	1939		
	Sept.	July	Aug.	Sept.
Sales, unadjusted.....	94	63	67	97
Sales, seasonally adjusted.....	90	89	90	93
Stocks, unadjusted.....	82r	67	74	81
Stocks, seasonally adjusted.....	79r	77	78	78

r Revised.



# FEDERAL RESERVE BANK OF NEW YORK

MONTHLY REVIEW, NOVEMBER 1, 1939

## Business Conditions in the United States

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

**V**OLUME of industrial production, which had turned up sharply last summer, advanced still more rapidly in the six weeks after the outbreak of war. Employment also increased but at a less rapid rate. Consumption of goods by industry and by individuals has not expanded so rapidly as production and orders. Buying of basic commodities, after a burst of activity in early September, has slackened considerably, but orders for many semifinished goods and for finished products, particularly machinery and railroad equipment, have continued in large volume. Most orders have come from domestic sources. Prices of basic commodities advanced sharply in the early part of September, but in recent weeks prices of foodstuffs have declined while prices of industrial materials in most instances have been maintained. Prices of finished goods have shown a much smaller advance.

### PRODUCTION

In September the Board's seasonally adjusted index of industrial production advanced to 110 per cent of the 1923-1925 average as compared with 103 in August and 92 last spring. Increases in output of iron and steel, flour, sugar, meat products, and petroleum were particularly marked in September. In the steel industry ingot production rose from an average rate of 61 per cent of capacity in August to 71 in September. In the first three weeks of October the rate advanced further to 90 per cent and actual volume of output was at the highest level on record. Flour production rose to near record levels and at meat packing establishments activity was at the highest rate reached in several years. The sharp increase in output of crude petroleum followed a considerable reduction in the previous month and currently production is at about the high rate prevailing before wells were closed in the latter half of August.

In other industries increases in activity, though quite general, were not so marked. Automobile production showed a sharp seasonal rise as volume production of new model cars was begun at most plants, and in related lines, such as plate glass, activity also increased. Textile production increased somewhat further from the high level reached earlier. Shoe production, however, which had been in large volume in the first eight months of the year, decreased in September. Mineral production advanced generally and iron ore shipment schedules were expanded to build up stocks at lower lake ports before the close of the shipping season.

Value of construction contracts, as reported by the F. W. Dodge Corporation, rose further in September, reflecting a contraseasonal increase in private residential building. Other private construction showed little change and there was some reduction in the volume of new public projects, both residential and nonresidential.

### DISTRIBUTION

In September and the early part of October department store sales increased considerably. Freight car loadings also advanced sharply, with the most marked increases reported in shipments of coal and of miscellaneous freight, which includes most manufactured products.

### COMMODITY PRICES

Wholesale prices of foodstuffs declined after the middle of September, following sharp advances earlier in the month. Prices of industrial commodities, which rose considerably until the third week in September, subsequently were generally maintained, although prices of some materials, such as steel scrap, hides, and rubber, declined from earlier peak levels.

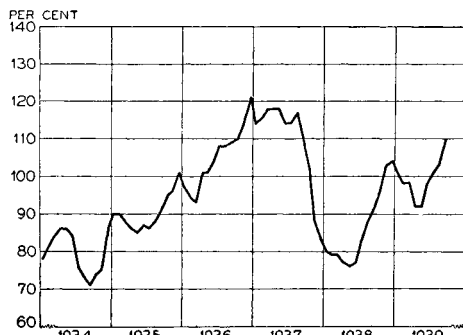
### BANK CREDIT

Following reductions during the early part of September, Government security holdings by member banks in 101 leading cities increased somewhat during the three weeks ended October 11, reflecting largely the purchase of Treasury bills. Commercial loans continued to increase, but at a less rapid rate than in late August and early September. The volume of demand deposits at city banks also increased further.

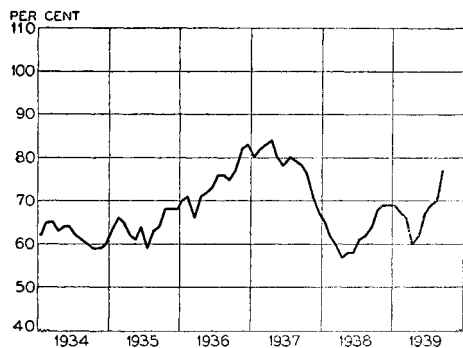
Excess reserves, which had increased sharply at member banks during the first half of September, showed further moderate increases during the four weeks ended October 11.

### MONEY RATES AND BOND YIELDS

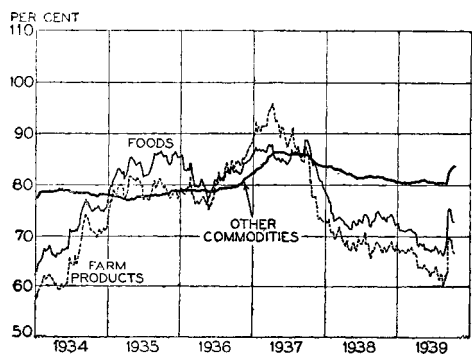
Prices of United States Government securities increased in the latter part of September and the first half of October, following sharp declines early in September. Average yields on long term Treasury bonds declined from 2.79 per cent on September 21 to 2.62 per cent on October 16. Yields on Treasury notes declined to 0.78 per cent from 1.30 per cent early in September.



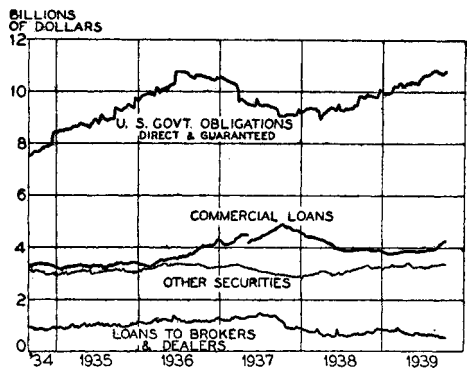
Index of Physical Volume of Industrial Production, Adjusted for Seasonal Variation (1923-25 average = 100 per cent)



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



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



Wednesday Figures for Reporting Member Banks in 101 Leading Cities (Latest figures are for October 11)