MONTHLY REVIEW

of Credit and Business Conditions

Second Federal Reserve District

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

Money Market in November

There has been evidence during the past month of increasing investment interest in high grade securities and in a wider range of maturities. Demand for such securities, after being largely limited to short and intermediate term securities in October, gradually extended during November to the longer maturities, apparently reflecting lessened apprehension concerning the immediate trend of interest rates, combined with the continued pressure of idle funds.

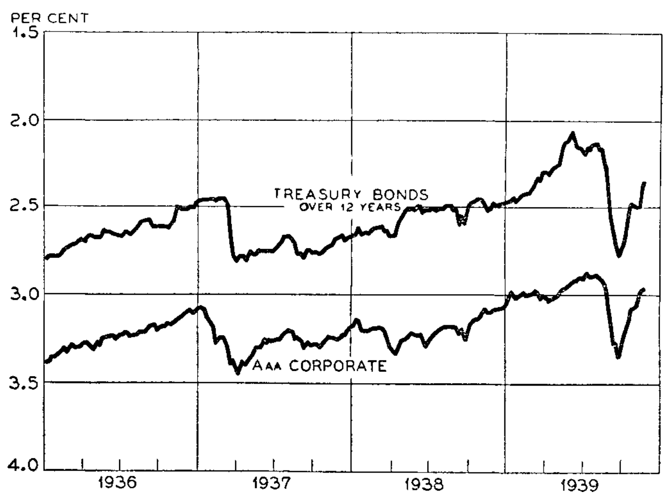
On some days during November long term Government bonds showed net gains of ¼ to ½ point or more. There were intervening declines, but the average price of long term Treasury bonds extended the recovery of October and late September by about 2 points, net. Near the end of November the average was about 6⅜ points above the lowest level reached in September, and was close to the level of August 31, just before the outbreak of war in Europe. Current prices of such bonds, although still about 3 points below the June peak on the average, are higher than at any time in recent years prior to last March.

The highest grade corporation bonds made somewhat larger recoveries, averaging 2¼ points during November, and near the end of the month price averages of such bonds had more than regained the losses of early September, standing somewhat above the August 31 levels. They were about 8 points above the lowest levels reached in September, and although they were still about 2 points below the peak levels reached in July, they, like Treasury bonds, were higher than at any time prior to last March.

Shorter term Government securities, which had experienced an earlier revival of demand than the long term bonds, also continued to be in good demand during November and their yields declined further. Price movements of such securities, however, were narrower than in the case of those with longer maturities.

On some days during November buying orders for Government securities appeared in the market in a volume considerably in excess of selling orders. The Federal Reserve System on occasions when the discrepancy was largest and the consequent upward movement of prices most rapid, helped to meet the demand by offering for sale some securities from the Federal Open Market Account, just as, in early September, it had placed bids in the market when buying orders were far short of offerings for sale. In the two weeks ended November 22, Reserve Bank holdings of Government direct and guaranteed notes and bonds showed a decrease of $45,000,000, in addition to a further reduction in Treasury bill holdings through maturities that were not replaced by purchases in the market. On November 29, the Reserve Bank holdings of Treasury bills amounted to only $35,000,000, a reduction of $442,000,000 since June 21. Holdings of Government direct and guaranteed notes and bonds, however, remained $429,000,000 greater than on August 23.

The rise in prices of high grade securities and the decline in their yields during the past month occurred in the face of a moderate reduction in the volume of excess reserves held by member banks. After reaching a peak of $5,530,000,000 on October 25, member bank excess reserves were reduced by $360,000,000 during the last week of October and the first two weeks of November, but the volume remained far higher than at any time previous to September. The absence of any effect on the money market of the decline in excess reserves may be attributable to the very large volume that remained and to the fact that the principal factors in the decline were regarded as temporary—an increase in the amount of Treasury deposits in the Federal Reserve Banks, which resulted mainly from the sale of an issue of Reconstruction Finance Corporation notes, and an increase, largely seasonal in character, in the amount of money in circula-



Average Yield on United States Treasury and High Grade Corporation Bonds (Average yield on Treasury bonds not callable within 12 years, and Moody's Investors Service average yield on Aaa bonds; scale inverted to show price movements)

tion. The reduction in Reserve Bank holdings of Government securities also tended to reduce the amount of member bank reserves, but its effect was more than offset by a further increase in the gold stock, which during the four weeks ended November 29 was in the neighborhood of $250,000,000.

Money Rates

Indications of the tendency for money rates to revert to the levels prevailing before the beginning of the war, appeared not only in the decrease in yields on long term bonds, but also in some further decline in yields on Treasury notes and Treasury bills, and in a reduction in open market commercial paper rates to the levels that had been in effect for some time prior to September 1.

Money Rates in New York

	Nov. 30, 1938	Oct. 31, 1939	Nov. 29, 1939
Stock Exchange call loans	1	1	1
Stock Exchange 90 day loans	*1¼	*1¼	*1¼
Prime commercial paper 4-6 months	⅝	⅝-¾	½-⅝
Bills—90 day unindorsed	7/16	7/16	7/16
Average yield on Treasury notes (3-5 years)	0.67	0.64	0.59†
Average yield on Treasury bonds (not callable within 12 years)	2.51	2.49	2.36
Average rate on latest Treasury bill sale 91 day issue	0.021	0.028	0.015
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 in average yield due to inclusion in the average of the new 1 per cent Treasury notes of March 15, 1944.

Member Bank Credit

Total loans and investments of all weekly reporting member banks increased $435,000,000 in the four weeks ended November 22, the largest increase for any corresponding period in a number of months, and reached the highest level since the spring of 1931. The principal elements in the increase were a further expansion of nearly $100,000,000 in commercial and industrial loans, an increase of approximately $100,000,000 in investments in Treasury bills, and an increase of about $180,000,000 in holdings of Government guaranteed securities, which reflected chiefly purchases of the new Reconstruction Finance Corporation notes issued on November 10.

Nearly three fourths of the total increase occurred at reporting New York City banks. About one half of the increases in commercial loans and in holdings of Government guaranteed securities occurred at New York, and in addition the New York City banks increased their holdings of Treasury bills by $144,000,000. At weekly reporting member banks in other principal cities, the increases in commercial loans and in holdings of Government guaranteed securities were partly offset by reductions in holdings of Treasury bills.

Deposits in the reporting banks, after declining at the beginning of November, rose subsequently to new high levels, both in New York City and in other principal cities represented in the reports.

Government Securities

Further recoveries in prices of United States Government securities occurred during November. The rising tendency of prices, however, was interrupted on several occasions by reports with respect to impending new and refunding Treasury security offerings. As the month closed, the average yield on long term Treasury bonds was 2.36 per cent, as compared with the record low yield of 2.07 per cent reached in June. During the past month, the average yield on Treasury notes also underwent a further decline.

Following three weekly issues in $150,000,000 amounts, the Treasury with the issue of Treasury bills dated November 8 returned to its preceding practice of issuing $100,000,000 of new bills, thereby simply replacing weekly maturities. Rates on the four $100,000,000 issues of November ranged from 0.020 to 0.015 per cent, the lowest rates since July.

On November 28, the Treasury offered for cash subscription $500,000,000 of 2 per cent Treasury bonds, to be dated December 8, maturing on December 15, 1950, but redeemable on or after December 15, 1948. For this issue, the Treasury announced that subscriptions in amounts not exceeding $5,000 would be allotted in full, providing subscribers take registered bonds not deliverable until 60 days after the issue date, although payment in full is required on the issue date. This innovation, while assuring that bona fide investors will obtain the new bonds in moderate amounts, tends to discourage speculative purchases.

Commercial Paper and Bills

During November rates for open market commercial paper continued to ease and in the latter part of the month dealers were quoting average grade prime 4 to 6 month notes at a range of ½ – ⅝ per cent. Thus the slight rise in rates that occurred in September has been canceled, and rates have returned to the level that prevailed for approximately eight months prior to the outbreak of the war. The quantity of new paper that dealers were able to acquire for offering in the open market continued much too small to satisfy the active bank investment demand. A total of $205,300,000 of paper was outstanding through commercial paper dealers at the end of October, as compared with $209,300,000 at the end of September. A year ago outstandings totaled $213,100,000.

The bill market remained quiet during November, reflecting the continued small supply of acceptances. At the end of October bills were outstanding in slightly larger volume than at the end of September but, in comparison with a year ago, the October figure represented a decline of $49,000,000, owing mainly to a contraction in the volume of bills arising from foreign trade.

(Millions of dollars)

Type of acceptance	Oct. 31, 1938	Sept. 30, 1939	Oct. 31, 1939
Import	94	78	85
Export	57	40	40
Domestic shipment	10	10	11
Domestic warehouse credit	50	33	35
Dollar exchange	3	18	18
Based on goods stored in or shipped between foreign countries	56	37	32
Total	270	216	221

Security Markets

Stock prices continued to fluctuate within a narrow range during November, and turnover on the New York Stock Exchange was even smaller than in October. At no time in November did the general average of stock prices touch the high reached in September shortly after the outbreak of war, whereas in late October there was a temporary rise to about the September high. Toward the end of November, stock prices generally stood about 7 per cent below the recent highs and some 13 per cent above the August low.

As in the case of stock prices, medium and lower grade bond prices on the whole showed little net change during November. Railroad issues of Baa grade eased somewhat further in November, following the sharp rise in September, while industrial and public utility bonds of this grade continued to advance. On the average, Baa bonds at the end of November were about 1½ points below their early August highs, owing entirely to the recession in rail issues.

It was in high grade corporation bonds that the most sustained price movement occurred during November. Reflecting this tendency, Moody's Investors Service average price of Aaa corporate bonds rose an additional 2¼ points and reached a slightly higher level than prevailed in August immediately before the outbreak of the war. This average remained, however, about 1¾ points below the August high and about 2 points below the record high of July. The present level of high grade corporate bond prices is the highest which has existed during recent years, with the exception of the six month period between March and August of this year.

A number of foreign bonds listed in this market showed further moderate recoveries in November, although, on the average, foreign bonds remained well below the quotations prevailing this year prior to September.

New Financing

The total volume of long term corporate and municipal financing remained at a low level in November, despite the appearance of the first public security offerings of any substantial size since the outbreak of the European war. These issues were the $30,000,000 of 2½ per cent and 3¼ per cent bonds of the City of New York, due from 1940 to 1969, and the $40,000,000 first mortgage 3½'s, due in 1964, and $12,500,000 debenture 4's, due in 1949, of the Public Service Company of Colorado. The New York City bonds were awarded on November 14 at an interest cost to the city of 2.56276 per cent and reoffered at prices to yield from 0.40 per cent to 2.85 per cent. Both the bonds and debentures of the utility company were offered to the public on November 28 at 102, representing yields of about 3.40 per cent for the bonds and 3.75 per cent for the debentures. In the investment market it is thought that the successful flotation of this issue, constituting the first real test of the corporate new security market since mid-August, may operate as a stimulus to the offering of other of the large issues which have been in registration with the Securities and Exchange Commission since before the war began.

Private sales reported during the month included $5,000,000 of National Gypsum Company debentures, $2,700,000 of collateral trust bonds of the Continental Telephone Company, and $2,100,000 of Long Island Water Company bonds.

A revival in the issuance of railway equipment trust certificates has been evident in recent weeks, a total of about $9,500,000 of these obligations having been publicly offered by three railroads during November. The award of one of these issues, $5,700,000 of 2½ per cent Bessemer and Lake Erie Railroad certificates maturing in from one to ten years, was made November 21 on an average yield basis of 1.60 per cent, reported to be the lowest since competitive bidding for this type of obligation was first ordered by the Interstate Commerce Commission in 1926. In addition, at least six other railroads have requested Interstate Commerce Commission authority to issue equipment trust certificates, but it is expected that the Reconstruction Finance Corporation will be asked to purchase most of these issues.

Total corporate and municipal financing for the month aggregated $168,000,000 as compared with $230,000,000 in October; these figures include public offerings, private placements, and exchanges. The month's total was divided almost equally between the corporate and municipal classifications. In addition, an unusually large volume of short term financing appeared. This amounted to $229,000,000 for the month and included $100,000,000 of State of New York 0.20 per cent seven and one-half month notes, about $50,000,000 of 0.60 per cent six month notes of local housing authorities, and $26,500,000 of Federal Intermediate Credit Bank 0.75 per cent consolidated debentures, maturing in from one to six months.

Foreign Exchanges

Trading in the New York foreign exchange market during November was featured by indications of considerable pressure against a number of foreign currencies. This development presumably was due, in part at least, to the month's political and military developments abroad.

Interest continued to be centered in the sterling rate in the New York market, which, after having fluctuated during most of October in the neighborhood of the Bank of England's official buying and selling rates of $4.04 and $4.02, showed a weaker tendency during the early part of the past month, accompanying reports of liquidation of London balances by certain neutral European and Far Eastern countries. This reaction culminated in a sharp break on November 9, when the rate receded to as low as $3.77, or only 2 cents above the low level reached on September 18. These lower rates apparently stimulated some demand, particularly on the part of domestic commercial concerns, and by November 13, the pound had recovered to as high as $3.95. During the rest of the month the rate fluctuated irregularly within a range of about $3.89-$3.95 in a thin market, and at the end of the month sterling was quoted at $3.90. The New York rate for the French franc continued to move approximately in line with that for British exchange. After opening the month at $0.0227, the French currency declined to as low as $0.0212¾ on November 9, subsequently recovered to $0.0223½, and at the close of November was quoted at about

$0.0221¼. Forward rates for both sterling and the franc showed a considerable widening of discounts during the past month.

The European neutral currencies also underwent increased pressure during November, especially during the second week of the month, when there were fears that violation of Dutch and Belgian neutrality was imminent. The New York rate for the belga, which had declined 23 points to $0.1664 during October, depreciated further to reach a low of $0.1608 on November 10. There was a considerable recovery, however, during the remainder of the month, and the rate, at $0.1654½ at the end of November, showed a net loss of only 9½ points for the month as a whole. The quotation for Swiss francs, on the other hand, was maintained within a range of about $0.2242-$0.2248, and the New York rate for guilders did not go below $0.5308. Italian lire remained at the pegged rate of $0.0505.

Canadian and Cuban exchanges both depreciated rather substantially in terms of the dollar during the month. With respect to the Far Eastern currencies, Shanghai dollars rose to 5 9/16 pence on November 4, the highest level since the middle of last July, but later moved irregularly lower to close November at 4 13/16 pence, somewhat below the end of October. The Japanese yen continued to fluctuate near the pegged rates of $0.2344 and $0.2347.

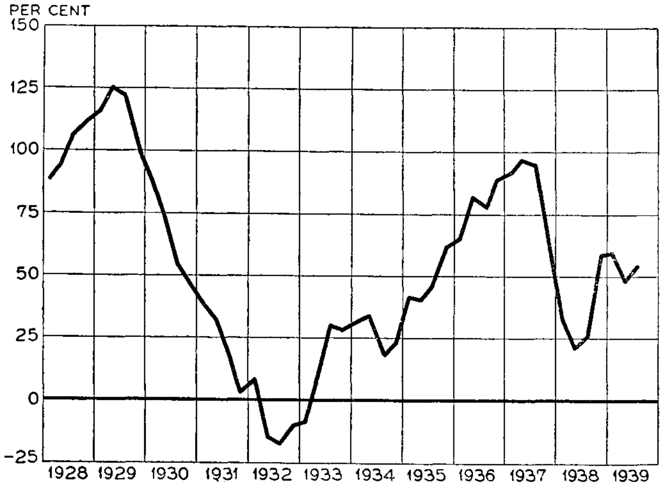
Gold Movements

Imports of gold into the United States were larger in November than in October, but with that exception were the smallest since January, 1939. A further decline, however, occurred in the volume of gold held under earmark for foreign account at the Federal Reserve Bank of New York, which was reduced $91,000,000 to approximately $962,000,000 at the end of November. The amount under earmark at the end of November was about $340,000,000 below the peak reached in midsummer of this year. The gold stock of the United States increased about $265,000,000 during November, reaching a new high of approximately $17,355,000,000.

During the three weeks ended November 22, gold imports into the United States, as reported by the Department of Commerce, totaled $69,625,000, of which $7,554,000 came from England, $7,440,000 from Australia, $6,979,000 from Canada, $6,721,000 from the Netherlands, $5,849,000 from India, $5,113,000 from Sweden, $4,765,000 from Japan, $4,176,000 from South Africa, $3,770,000 from Italy, $2,990,000 from Switzerland, $2,654,000 from Hungary, $2,302,000 from Norway, $2,117,000 from Colombia, $1,790,000 from Mexico, and $1,767,000 from Hong Kong.

Business Profits

Reflecting the moderate increase in the general volume of production and trade in July and August and the accelerated rise in September, this bank's seasonally adjusted index of the profits earned by industrial and mercantile companies showed a moderate increase between the second and third quarters of this year, as is indicated in the accompanying diagram. This rise in aggregate profits of companies reporting on a quarterly basis occurred despite a decline in profits of the automobile manufacturing and parts companies, and despite the fact that only one month of the period of rapid advance in production which followed the outbreak of war is included in the quarter under review. Profits of a number of groups of companies listed in the table showed increases of varying degree between the second and third quarters, and in the case of steel company profits the rise was considerable, especially in view of the usual seasonal tendency for a decline to occur at this time of the year.



Index of Profits of 168 Industrial and Mercantile Corporations, Adjusted for Seasonal Variation (1928 average = 100 per cent)

Third quarter earnings of the 399 companies summarized in the table, while 72 per cent above those of the third quarter of 1938, remained more than one-third smaller than in the corresponding quarter of 1937 and about one-fourth less than in 1936. The largest percentage gains over the 1938 level occurred in the advertising, printing and publishing, automobile, aviation, heating and plumbing, machinery and tool, copper mining, paper and paper products, and railroad equipment groups; all of these groups reported third quarter net profits at least double last year's totals. In addition, the steel and automobile parts and accessories groups reported sizable profits this year, in place of the deficits of a year previous, and the coal mining group, which last year showed a rather substantial deficit, this year reported a deficit of nominal proportions. All other groups also had better earnings records than a year ago with the exception of the petroleum, bakery products, shipping, and drug and cosmetics groups. Of the total of 399 companies, 13.5 per cent operated at a loss in the third quarter compared with 27.1 per cent in the corresponding period of last year.

Total net profits of the 399 industrial and mercantile companies for the first nine months of this year showed an increase of 71 per cent over 1938, or approximately the same change as occurred in the third quarter; likewise the decreases from the 1937 and 1936 levels were not greatly different from those reported for the third quarter. In general, tendencies among the individual groups were similar for the nine months and the third quarter, although percentage changes varied considerably in some cases.

In line with the increased volume of car loadings, Class I railroads as a group reported for the third quarter net income of $58,500,000 (after payment of interest and other charges), as compared with only $4,500,000 a year ago, $42,500,000 in 1937, and $66,900,000 in 1936. For the first nine months of the year there was a net deficit, amounting to $33,300,000, which, however, was only about one-fifth that of a year ago, and preliminary earnings reports and the current level of freight traffic indicate that Class I railroads as a group will probably earn some net income for the year as a whole. Net operating income of telephone companies and net income of other public utilities showed moderate increases over a year ago, both for the third quarter and the first nine months of 1939.

(Net profits in millions of dollars)

Corporation group	No. of cos.	Third quarter 1938	Second quarter 1939	Third quarter 1939	First nine months 1936	First nine months 1937	First nine months 1938	First nine months 1939
Advertising, printing and publishing...	8	0.7	4.5	1.5	11.0	10.6	5.9	7.9
Automobiles.......	11	0	47.5	6.7	185.6	159.5	26.0	106.8
Automobile parts and accessories...	37	—2.5	10.7	7.1	49.3	57.4	— 6.0	30.4
Aviation..........	9	3.0	5.8	7.3	3.1	5.3	8.4	17.4
Building materials:								
Bricks, cement, and gypsum...	6	2.9	3.9	5.0	10.3	13.0	7.1	11.0
Heating and plumbing......	8	1.8	1.8	3.8	10.1	14.2	0.6	4.8
Lumber and roofing products...	7	1.9	2.1	2.8	5.2	8.8	1.3	4.6
Other building materials......	8	0.8	1.1	1.3	3.7	5.1	1.5	2.9
Chemicals.........	25	23.6	31.2	35.9	96.2	121.3	60.1	93.7
Drugs and cosmetics	9	7.3	6.0	7.1	21.1	21.6	18.6	21.6
Electrical equipment	18	8.5	15.9	15.7	51.9	77.4	31.1	45.0
Food and food products:								
Bakery..........	9	6.9	5.8	5.7	18.4	15.5	17.4	16.1
Beverages.......	7	12.2	10.9	12.7	30.5	34.3	31.6	32.4
Confectionery....	8	4.3	4.8	5.4	12.2	13.2	12.2	15.1
Other food products.........	12	12.5	14.1	15.2	49.7	40.5	38.6	42.0
Machinery and tools	30	1.4	4.6	6.7	26.9	45.0	7.4	13.9
Other metal mfrs.	12	3.2	3.7	5.6	21.3	25.5	3.6	12.9
Mining:								
Coal............	11	— 1.3	— 0.7	0	1.6	0.7	— 3.7	— 0.6
Copper..........	5	4.1	7.0	8.3	18.6	40.0	14.0	22.2
Gold and silver...	13	5.6	5.5	6.0	18.4	23.7	16.8	16.5
Other mining....	12	8.3	9.6	12.6	35.8	55.8	25.7	33.0
Motion pictures and amusements.....	4	2.2	1.7	2.2	6.4	7.2	6.5	5.8
Office and store equipment.......	7	2.9	3.0	3.3	11.7	14.6	9.8	10.5
Paper and paper products...........	13	1.2	2.2	3.1	7.4	18.7	4.1	7.1
Petroleum.........	27	31.0	18.0	23.1	98.5	143.7	88.8	53.1
Railroad equipment.	10	0.6	2.8	4.8	16.1	33.5	1.3	10.2
Retail trade........	14	1.4	1.9	2.4	7.3	8.3	0.4	4.8
Shipping..........	4	1.3	— 0.1	1.2	3.1	0.7	— 0.4	1.0
Steel..............	24	— 8.2	12.0	30.1	87.1	203.8	— 22.7	53.4
Textiles...........	10	1.2	1.0	2.3	8.4	7.6	— 0.3	3.7
Tobacco (cigars)....	6	1.1	1.0	1.1	2.7	2.5	2.3	2.6
Miscellaneous......	15	8.9	8.1	10.1	22.2	25.6	17.4	25.7
Total, 32 groups....	399	148.8	247.4	256.1	951.8	1,254.6	425.4	727.5
Class I railroads, net income......	139	4.5	—48.2	58.5	43.7	81.4	—175.6	—33.3
Telephone companies, net operating income............	90	50.5	60.4	60.1	169.8	171.5	153.4	176.9
Other public utilities, net income.......	65	48.9	60.4	55.4	173.0	182.2	159.2	182.3

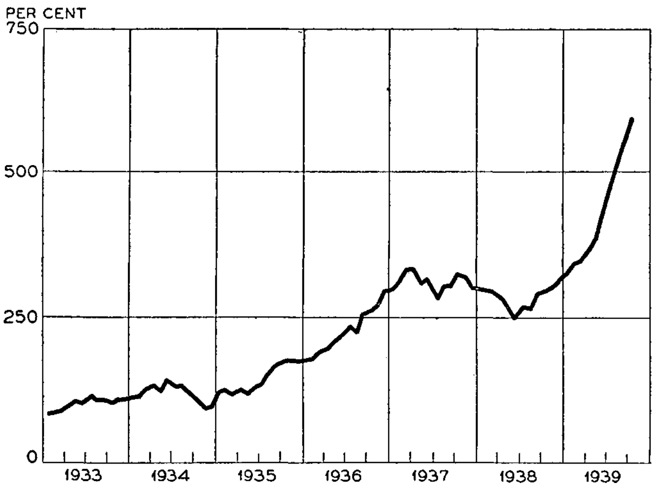
— Deficit.

Production and Trade

Business activity gained further in November following the rapid advances in September and October. Steel mill operations, which had expanded from 62 to 89 per cent of capacity between August and October, averaged around 93 per cent of capacity in November. New buying apparently slackened gradually and some reduction in previously accumulated order backlogs has been reported. Although new orders for cotton goods continued to lag behind current production, cotton textile mills maintained activity at a high level against orders received during September. Electric power production advanced somewhat further during November, and somewhat less than the usual reduction occurred in railway freight traffic. Automobile production was higher than in October, but the rise was less than expected inasmuch as the plants of a major producer were shut down until the end of the month owing to a labor controversy. Department store sales appear to have advanced considerably more than is usually the case in November.

The pronounced rise in business activity which characterized September was extended during October. Although production of textiles and other nondurable goods was maintained in general at around September levels, output of durable producers' goods, particularly steel, expanded substantially further. Another indication of the rising momentum of activity in the so-called "heavy" industries appeared in a new index of the operating rate in the machine tool industry, recently released by the National Machine Tool Builders' Association, which showed an advance of 10 points in October to 85 per cent of estimated capacity. Less than the expected seasonal rise occurred in the production of automobiles, owing to the labor troubles previously referred to, but sales of new passenger cars rose substantially, compared with a small advance at this time last year and reductions in preceding years.

Since the outbreak of the war in Europe, and more particularly since the repeal of the arms embargo in this country, a great deal of attention has been directed towards the American aircraft industry. The current intense demand for military planes, from foreign governments as well as from the United States, points to a further rise of activity in this industrial field. The accompanying diagram, showing a seasonally adjusted index of man-hours of employment at aircraft factories, portrays the growth of this "new" industry during the past seven years. Activity of aircraft factories, as reflected in man-hours of employment, has more than



Index of Man-hours of Employment in Aircraft Factories, Adjusted for Seasonal Variation (1933 average = 100 per cent; based on Bureau of Labor Statistics data—October, 1939 estimated)

doubled during the past year, and the industry has reached a level of activity nearly six times the 1933 average.

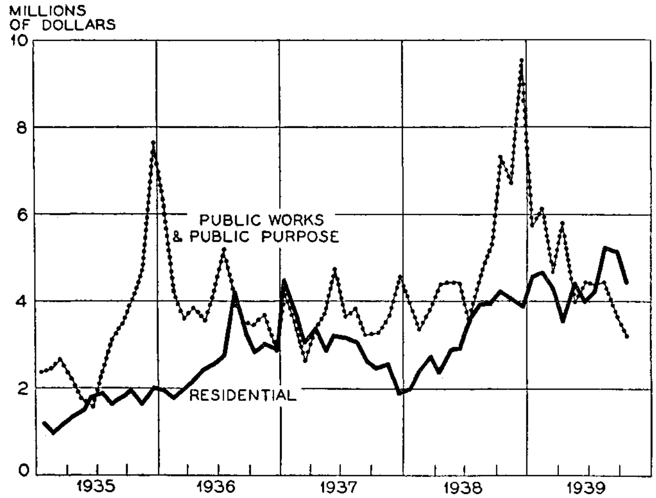
(Adjusted for seasonal variations, for estimated long term trend, and where necessary for price changes)

	1938	1939		
	Oct.	Aug.	Sept.	Oct.
Industrial Production				
Steel	67r	82	94	115
Passenger cars	61	56	97	79
Motor trucks	56	65	70	148
Bituminous coal	74	85	91	96p
Crude petroleum	84r	64	88	93p
Electric power	90r	96	98p	100p
Cement	61	60	60	64
Cotton consumption	92r	106	110	111
Wool consumption	91	119	126	120p
Shoes	103	110	100p	100p
Meat packing	89	95	97	97
Tobacco products	86	93	89	92
Employment				
Employment, manufacturing, U. S.r	91	97	98	102p
Employee hours, manufacturing, U. S.r	78	85	86	92p
Construction				
Residential building contracts	44	53	52	44
Nonresidential building and engineering contracts	83	55	59	47
Primary Distribution				
Car loadings, merchandise and misc.	77	78	85	87
Car loadings, other	75	81	93	98
Exports	77	92	88	87p
Imports	76	71	80	81p
Distribution to Consumer				
Department store sales, U. S.	81	87	88p	87p
Department store sales, 2nd District	75	79	82p	79p
Chain grocery sales r	96	107	104	106p
Other chain store sales	95	94	100p	95p
Mail order house sales	89r	101	105	101
New passenger car registrations	59	73	82	112p
*Velocity of Deposits**				
Velocity of demand deposits, outside New York City (1919-25 average = 100)	62	58	60	57
Velocity of demand deposits, New York City (1919-25 average = 100)	40	30	34	29
*Prices and Wages**				
General price level (1913 average = 100)	155	152	155p	155p
Cost of living (1913 average = 100)	148	146	148	148
Wage rates (1926 average = 100)	110r	111	111p	111p

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

Building

During October construction contracts in the 37 States covered by the F. W. Dodge Corporation survey were awarded at an average daily rate 19 per cent below the September level. The decrease between September and October resulted from reductions in all the major construction categories, but especially the heavy engineering class. Residential building contracts showed a decrease of 9 per cent from the September average, whereas ordinarily a moderate seasonal increase occurs in this type of awards during October. The reduction was almost entirely in apartment house contracts. Decreases in contracts for other types of buildings, however, were more or less in accordance with seasonal expectations. Total construction contracts were 27 per cent smaller than the comparatively large volume of awards in October of last year, owing primarily to material reductions in the categories of public purpose building and public works. On the other hand, for the first ten months of this year all the principal types of construction except public purpose building showed advances over the corresponding period of 1938, ranging from 5 per cent for public works projects to 41 per cent for residential building; the increase in total contract awards amounted to 16 per cent.



Average Daily Value of Contracts Awarded for Residential Buildings, and for Public Works and Buildings Serving Public Purposes, Adjusted for Seasonal Variation (Based on F. W. Dodge Corporation data for 37 States)

The accompanying diagram illustrates the varying courses of two of the principal types of construction in the 37 States from 1935 to date—residential building, and nonresidential construction of a public nature (public purpose building and public works projects). Residential building this year has increased somewhat further and in general has attained the highest level since 1929, whereas public construction contracts have declined considerably since December, 1938, which marked the peak of contract awards under the most recent Federal public works program. Nonresidential construction of a public nature, which for much of the period shown in the diagram was in larger volume than residential construction, has recently been in smaller volume than residential building.

The daily rate of construction contract awards in the New York and Northern New Jersey area during October showed approximately the same percentage reduction from the previous month as for the country as a whole—20 per cent. Contracts for residential building in this area declined 26 per cent from the large September volume, and awards for commercial and industrial buildings were 18 per cent lower. Further curtailment was apparent in public works projects, awards for which registered a 33 per cent decrease from the previous month. There were increases over September, however, in the categories of public purpose building and public utility construction, owing to the placing of large contracts for a public school building and for the elimination of two railroad grade crossings, all in Metropolitan New York. For the first ten months of 1939, total construction contracts in this area were 3 per cent lower than in the comparable period of 1938, chiefly because of a 64 per cent decline in the public utility classification.

For the first two weeks of November, the daily rate of construction contract awards in the 37 States increased 42 per cent over the October average, owing especially to the inclusion of a large figure for a Tennessee Valley Authority project early in the month. Compared with the first half of November, 1938, total contract awards showed a 27 per cent increase.

Commodity Prices

Commodity prices generally showed less fluctuation in November than in September or October. Prices of raw products underwent a slight decline, according to Moody's Investors Service index.

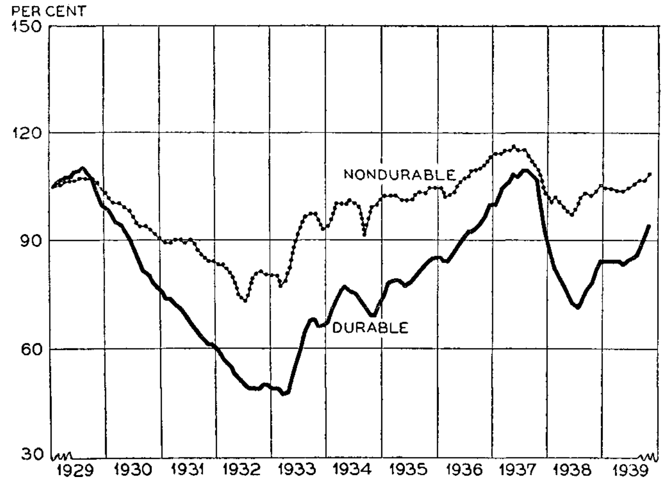
Continued severe drought in the Southwestern winter wheat area and firming prices at Winnipeg resulted in some increase in cash wheat quotations. Cash corn advanced to 52¼ cents a bushel, the highest price since the end of September, as the Federal Government announced that it would lend farmers 57 cents a bushel on the 1939 crop; hog prices, on the other hand, reflecting increased supplies, declined $1.43 a hundredweight to the lowest level since October, 1934. Cotton prices at ten Southern markets rose ¾ cent to 9½ cents a pound, owing to the unusually small supply of "free cotton," the announcement of a loan program on the new crop, the high rate of activity of domestic mills, and considerable foreign demand. On the other hand, wool and silk prices eased somewhat from the high levels reached in October. Hides were quoted nominally lower, while rubber prices remained fairly firm as shortage of rubber stocks here, coupled with a high rate of consumption, offset the large supplies reported en route to the United States and an increased export quota for the first quarter of 1940.

The Iron Age composite price of scrap steel declined further to $18.58 a ton, $3.92 below the peak of early October, and there was a general reaffirmation of the current schedule of finished steel prices for the period through the end of March, 1940. Tin, after receding during the first half of the month to 49¾ cents a pound, approximately the August 31 level, recovered 4 cents by the end of the month as hazards of shipping increased. Other nonferrous metals remained steady.

Employment and Payrolls

Nonagricultural employment increased by nearly 400,000 workers between September and October, according to the Secretary of Labor. A majority of these workers were absorbed by manufacturing industries, but large employment gains were also reported in wholesale and retail trade and in mining; railroads increased their working forces for the tenth successive month. Compared with a year ago, it is estimated that the number of employed workers in all nonagricultural occupations has increased by about 1,300,000.

During October, working forces in United States factories increased by 250,000 persons, or 3 per cent, and payrolls rose 8 per cent, the largest gains reported for any October in the past twenty years. Altogether there was an increase in factory employment of over 800,000 persons between May and October. Most of the October gains in employment occurred in the durable goods industries, which as a whole employed 7 per cent more workers than in September. The iron and steel and nonferrous metals industries each reported 10 per cent larger working forces, and other sizable gains were registered by the machinery and transportation equipment groups. Seasonal contraction in canning and preserving resulted in a decline in employment in the food classification. As compared with October of last year,



Indexes of Employment in Factories Producing Durable Goods and in Those Producing Nondurable Goods, Adjusted for Seasonal Variation (1923-25 average = 100 per cent; based on Bureau of Labor Statistics data)

total factory employment was 12 per cent greater and payrolls were 20 per cent higher.

Employment in durable goods manufacturing has increased much more rapidly than has employment in nondurable goods industries during the recent business upturn, as the accompanying diagram indicates. From August to October the number of workers in the durable goods classification increased 10 per cent, while working forces in the manufacture of nondurable goods rose 1½ per cent. The present level of durable goods employment is about one-third higher than in the summer of 1938, while nondurable goods industries are employing only 11 per cent more workers now than at the low point of 1938. Employment in the manufacture of durable goods is ordinarily subject to much wider fluctuations than employment in the nondurable goods industries. Although the decline in durable goods employment in 1937-38 was more than twice as large as the decrease for the nondurable goods classification, the recovery of the former has also been greater and employment in the durable goods industries has now regained a somewhat larger proportion of the 1937-38 losses than has nondurable goods employment.

Factory employment and payrolls in New York State increased sharply between September and October to reach the highest October levels since 1929. Although increases in employment and payrolls in September had been more or less in accordance with usual seasonal tendencies, the October gains of 4 per cent in the number of workers employed and 6 per cent in payrolls came at a time when little change ordinarily occurs. The larger advance in payrolls was due in some measure to the effect of holidays during the September reporting period. Expansion of working forces was widespread and most major industrial groups shared in the advance; the metals and machinery category and the textile group registered increases of 8 per cent each. However, there was no appreciable change in employment in the clothing industry, and the food group showed a net decline owing mainly to a sharp seasonal contraction in canning and preserving. Compared with October a year ago, total factory employment was 12 per cent greater and payrolls were 17 per cent higher.

Foreign Trade

Reflecting the effects of the present European war and a continuance of tendencies noted in preceding months, the value of this country's foreign trade increased substantially during October. Imports valued at $215,000,000 showed a 21 per cent gain over a year previous, and exports amounting to $332,000,000 registered an increase of 20 per cent. There was also an advance of 19 per cent over the previous month in the case of imports, whereas ordinarily little change occurs between September and October. Exports showed an increase of 15 per cent over September, which was about in accordance with seasonal expectations. The $117,000,000 excess of exports in October was larger than the export balance in any previous month, with one exception, since October, 1929.

As the accompanying table indicates, the majority of the principal export and import groups contributed in some measure to the increases over October, 1938. Among the exports, a 45 per cent increase occurred in the category of semimanufactured products, owing to especially large increases in shipments of industrial chemicals, naval stores, and semimanufactures of aluminum, iron and steel, and petroleum. Exports of manufactured food products also showed a large increase over a year ago, owing to larger shipments of such products as canned and dried fruits, partly offset by declines in exports of meat products. Most crude foodstuffs, however, were exported in somewhat smaller volume than a year ago. Shipments of finished manufactures of iron and steel, paper, rubber, and textiles, also of lubricating oil, metal working machinery, and motor trucks registered material gains. On the other hand, decreases from October, 1938, were shown in exports of passenger automobiles and of aircraft, the latter reflecting the effects of the arms embargo in force in this country in October of this year. In the crude material classification, there was a large increase in raw cotton shipments and also substantial increases in exports of coal and a number of crude products, but exports of unmanufactured tobacco decreased considerably.

	Dollar value (in millions) October, 1939		Percentage change October, 1939 compared with October, 1938		Percentage change Jan.-Oct., 1939 compared with Jan.-Oct., 1938	
	Exports*	Imports†	Exports	Imports	Exports	Imports
Crude materials	78.4	70.5	+ 8.8	+31.3	—16.4	+23.8
Crude foodstuffs	10.2	24.9	—18.3	+17.9	—56.8	+11.3
Manufactur'd foodstuffs	27.5	27.7	+32.6	+ 1.8	+12.9	— 1.9
Semimanufactures	64.5	45.4	+45.2	+27.1	+14.6	+21.6
Finished manufactures	142.4	38.6	+14.7	— 5.0	+ 5.3	+ 5.0
Total	323.0	207.1	+17.9	+16.1	— 2.4	+13.4

*Domestic exports only. †Imports for consumption only.

Increases over a year ago also occurred in a wide variety of import classifications. The crude materials group showed a 31 per cent rise, which was accounted for principally by large gains in the value of crude rubber and raw silk importations, owing both to higher prices for these commodities and to increased quantities imported. Receipts of hides and skins, wool, and crude petroleum also were materially larger, while imports of uncut diamonds were greatly reduced. Imports of semimanufactures showed a 27 per cent gain, in which the chief contributing factors were increased receipts of copper, nickel, tin, lumber products (including woodpulp), inedible expressed oils, and cut diamonds. Imports of beef cattle, cocoa, coffee, and bananas, in the category of crude foodstuffs, also showed sizable increases. On the other hand, among the manufactured foodstuffs, imports of edible vegetable oils, liquors, and sugar were well below the volume of a year ago, although the total for all manufactured foodstuffs was slightly higher. Receipts of the majority of finished manufactures, excluding newsprint paper, were smaller than in October, 1938.

Department Store Trade

For the four weeks ended November 25, total sales of the reporting department stores in this District were about 7½ per cent higher than in the corresponding period of 1938, and the daily rate of sales for this portion of November advanced considerably more than usual from the October average.

Total October sales of the reporting department stores in this District were almost 4½ per cent higher than in October, 1938, and sales of the apparel stores were about 4 per cent larger. Department stores in all localities continued to report a larger volume of sales this year than last, but for the District as a whole the daily rate of sales showed slightly less than the usual advance over September, which was a relatively good month for retail trade.

Stocks of merchandise on hand in the New York and Brooklyn department stores remained somewhat lower than a year ago, while stocks in department stores in other localities were somewhat above the levels of October, 1938. Apparel store stocks continued lower than a year ago. Collections of accounts outstanding were slightly slower than a year ago both in the department and apparel stores.

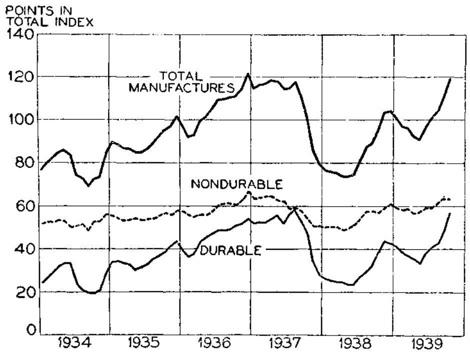
Locality	Percentage change October, 1939 compared with October, 1938		Per cent of accounts outstanding September 30 collected in October	
	Net sales	Stock on hand end of month	1938	1939
New York and Brooklyn	+ 3.7	— 2.3	48.4	48.5
Buffalo	+ 7.0	+ 5.3	45.0	46.3
Rochester	+ 9.4	+ 6.8	57.4	58.7
Syracuse	+11.9	+ 7.4	44.1	43.4
Northern New Jersey	+ 3.2	+ 1.8	42.8	39.9
Bridgeport	+ 0.5	+ 4.9	43.8	44.2
Elsewhere	+ 5.7	+ 6.3	35.7	34.6
Northern New York State	+ 5.6	......	....	....
Southern New York State	+ 6.6	......	....	....
Central New York State	+13.6	......	....	....
Hudson River Valley District	+ 3.1	......	....	....
Westchester and Stamford	+ 1.7	......	....	....
Niagara Falls	+ 3.4	......	....	....
All department stores	+ 4.3	— 0.3	46.7	46.0
Apparel stores	+ 4.1	— 3.0	47.6	47.3

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

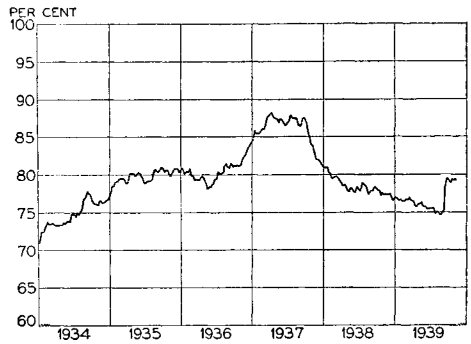
	1938	1939		
	Oct.	Aug.	Sept.	Oct.
Sales, unadjusted	98	67	97	104
Sales, seasonally adjusted	85	90	93	90
Stocks, unadjusted	89	74	81	88
Stocks, seasonally adjusted	78	78	78	77

FEDERAL RESERVE BANK OF NEW YORK

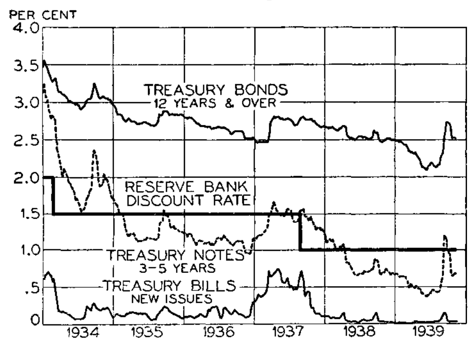
MONTHLY REVIEW, DECEMBER 1, 1939



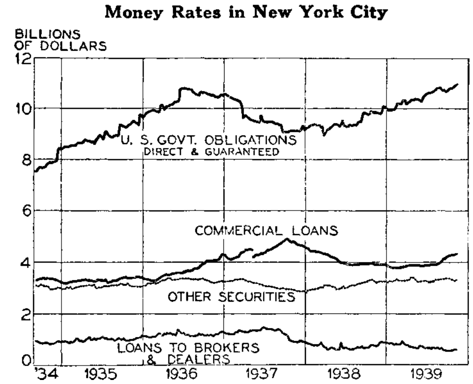
Index of Physical Volume of Manufacturing Production, Adjusted for Seasonal Variation (1923-25 average = 100 per cent; durable and nondurable groups expressed in terms of points in total index)



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



Money Rates in New York City



Wednesday Figures for Reporting Member Banks in 101 Leading Cities (Latest figures are for November 8)

Business Conditions in the United States

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

RAPID expansion of industrial output continued in October, and employment and payrolls increased considerably. Distribution of commodities to consumers, which had increased in September, was maintained at the higher level in October. In the first half of November industrial activity increased further but, with production in many industries approaching capacity, the advance was less rapid than in earlier months. Commodity prices generally showed little change during October and the first half of November, following the sharp rise in September.

Production

Volume of industrial production showed a further sharp rise in October and the Board's seasonally adjusted index advanced from 111 to 120 per cent of the 1923-1925 average. Marked increases in activity were reported in the steel and steel consuming industries and at mines. In the steel industry ingot production in October was at a rate of 90 per cent of capacity and actual volume of output was the greatest for any month on record. Some further increase in the rate of output was reported in the first half of November. Pig iron production also advanced sharply and lake shipments of iron ore, which had increased considerably in September, continued in exceptionally large volume. Activity in the machinery and shipbuilding industries and in most other steel consuming lines rose in October but by a considerably smaller amount than output of steel. In the automobile industry, however, output showed less than the marked rise usual at this season. This was due to the fact that plants of one large producer were closed during most of the month by an industrial dispute. Mineral production in October was at record levels owing chiefly to a high rate of crude petroleum output.

In the nondurable goods industries activity was generally maintained at the high levels reached in August and September. Flour production declined sharply, however, following an exceptionally large volume of output in September.

Value of construction contracts, as reported by the F. W. Dodge Corporation, decreased considerably in October, reflecting principally a reduction in awards for public construction. Private residential contracts continued in substantial volume while awards for commercial and industrial building declined somewhat following increases in the previous month.

Employment

Reports from leading industrial States indicate that factory employment and payrolls increased sharply between the middle of September and the middle of October. Increases were particularly large at steel mills and in related industries. There was also a considerable increase in employment on the railroads in October.

Distribution

Retail distribution of general merchandise in October showed about the usual seasonal rise from the advanced September level. In the early part of November department store sales increased considerably.

Freight car loadings rose further from September to October, reflecting a large increase in shipments of miscellaneous freight, which includes most manufactured products, and smaller increases in loadings of coal, forest products, and ore.

Commodity Prices

Price changes that have occurred since the general sharp rise in September have reflected largely particular developments in individual commodities. From the middle of October to the middle of November prices of a number of foodstuffs continued to decline and there were also decreases in some industrial materials, such as print cloths, wool, tin, and steel scrap. Wheat, cotton, and burlap advanced somewhat while prices of most other commodities, including finished industrial products, showed little change.

Government Security Prices

Following a sharp recovery from the low of September 21, prices of United States Government bonds showed irregular changes during the period from October 24 through the first half of November. On November 15 yields on long term Treasury bonds were at 2.47 per cent as compared with 2.79 per cent on September 21.

Bank Credit

Total loans and investments at reporting member banks in 101 leading cities increased substantially during the six weeks ended November 8, reflecting largely purchases of Treasury bills by New York City banks. Commercial loans continued to show moderate increases. Deposits at these banks rose to new high levels.