MONTHLY REVIEW
of Credit and Business Conditions
Second Federal Reserve District

Federal Reserve Bank, New York *January 1, 1940*

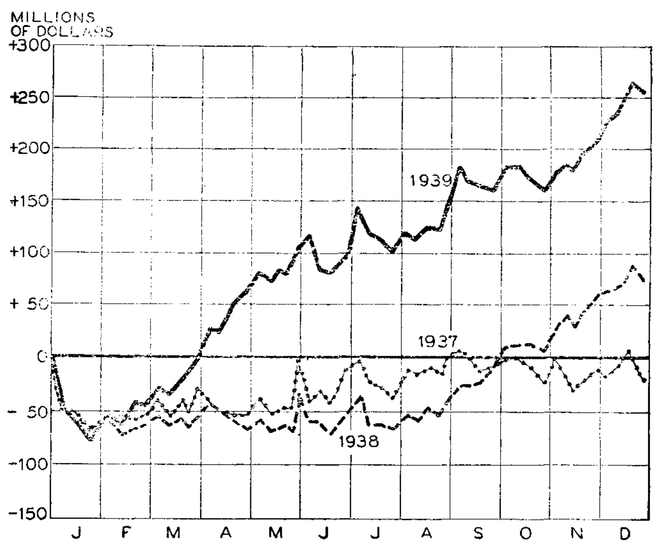
Money Market in December

Substantial withdrawals of currency from the Reserve Banks, by member banks, to meet customers' requirements for the holiday trade, and payments out of the market into the Reserve Banks for a new issue of Treasury bonds, caused a further reduction in member bank reserves during the first half of December, despite a continued large inflow of gold from abroad. The reduction was chiefly in New York City with smaller declines in other parts of the country. The amount of excess reserves held by the banks remained so large, however, that the reduction had no visible effects on the money market situation. Around the middle of the month excess reserves in New York City were about $2,450,000,000, as compared with nearly $3,000,000,000 at the end of October, and for the country as a whole amounted to $4,850,000,000, or $680,000,000 below the peak of $5,530,000,000 reached on October 25.

A moderate upturn in excess reserves occurred outside New York, in the week ended December 20, and a substantial increase in New York in the following week. An acceleration of the increase is expected in January as a result of the seasonal decline in the amount of currency in circulation, net Government disbursements, and further inflows of gold.

As the accompanying chart shows, net withdrawals of currency from the Federal Reserve Bank of New York during the past year have been far greater than in other recent years. On December 27, the amount of currency outstanding through this bank was approximately $255,000,000 larger than on the corresponding date a year previous. The comparable increase during 1938 was only $75,000,000, and in 1937, when business activity declined sharply in the closing months of the year, there was a small net reduction. For the country as a whole, the increase in the volume of currency outstanding during 1939, while not proportionately as large as at New York, has also been much greater than in preceding years. The net increase in 1939 was about $750,000,000, as compared with an increase of $340,000,000 in 1938 and little net change in 1937. The unusually large demand for currency during the past year has reflected larger payroll requirements, incident to rapidly expanding industrial production in the latter part of the year, shipments of United States currency to foreign countries, especially in the period preceding and following the German occupation of Czecho-Slovakia last spring, failure of tourist money to return to this country in the usual volume, and some foreign demands for United States currency within this country—all combined with a continuation of the upward trend, apparently attributable to the use of currency in place of checks, that has been noted in recent years.

In general, however, the effects on bank reserves of the large demand for currency in recent months, have continued to be more than offset by the heavy flow of gold to this country. During the last quarter of 1939 the increase in the United States gold stock has averaged about $230,000,000 a month, an amount substantially in excess of the current rate of gold production throughout the world, despite war-time restrictions imposed in belligerent countries on movements of capital for private accounts, which had been responsible for a large part of the gold flow to the United States before the war began. Some of the gold shipments in the last quarter of 1939 apparently were to cover commitments made here by foreign countries before the beginning of the war, some covered payments for the continued excess of our merchandise exports over imports, and some reflected transfers of funds to the United States by neutral countries. As a consequence of this continued heavy gold movement to the United States, it appears that, disregard-



Changes in Volume of Currency Outstanding through Federal Reserve Bank of New York (Weekly data for each year cumulated from last Wednesday of preceding year)

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ing more or less temporary influences such as payments for new securities sold by the Treasury and by Government agencies, the underlying trend of member bank excess reserves is still upward.

Apparently reflecting this situation with respect to member bank reserves (as well as the character of the war in Europe), and also continued accumulations of funds for investment in institutions such as insurance companies and savings banks, prices of high grade securities have advanced further during the past month, despite the temporary decrease in excess reserves, and security yields have declined accordingly. In the first half of the month prices of high grade securities showed little net change as the markets were inactive, apparently awaiting the outcome of Treasury financing operations, but in the latter half of the month a fairly strong rise occurred. Yields on long term Treasury bonds reached the lowest average levels since August 23. In this period sales of Government securities from the Federal Reserve open market account were resumed, and the account showed a net reduction of about $23,000,000 in the two weeks ended December 27. Prices of the highest grade corporation bonds also were firm during December and yields declined to the lowest levels since the third week of August, and yields on high grade municipal securities reached new low levels. Short term money rates were virtually unchanged.

Money Rates in New York

	Dec. 31, 1938	Nov. 30, 1939	Dec. 28, 1939
Stock Exchange call loans	1	1	1
Stock Exchange 90 day loans	*1¼	*1¼	*1¼
Prime commercial paper 4-6 months	⅝	½-⅝	½-⅝
Bills—90 day unindorsed	7/16	7/16	7/16
Average yield on Treasury notes (3-5 years)	0.69	0.60	0.47†
Average yield on Treasury bonds (not callable within 12 years)	2.48	2.38	2.30
Average rate on latest Treasury bill sale 91 day issue	**	0.015	0.007
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.
**Issue sold at par.
†Change of +0.07 in average yield due to inclusion of the new issue of 1 per cent Treasury notes maturing September 15, 1944, and dropping of the 1¾ per cent Treasury note issue maturing December 15, 1942, because it matures within three years.

Member Bank Credit

Total loans and investments of weekly reporting member banks in New York City rose somewhat further to new high levels in the four weeks ended December 20, largely because of a substantial increase in loans to security brokers and dealers, which apparently was related chiefly to Government financing operations in December. Holdings of direct obligations of the Government showed little net change, despite purchases of the new Treasury bonds issued on December 8, as a moderate increase in holdings of Treasury bonds was largely offset by a reduction in Treasury bill holdings. In the third week of December acquisitions of the new issue of Treasury bills were substantially less than the amount of maturing bills held by the New York banks, as higher bids for a substantial part of the new issues were received from other banking institutions and industrial corporations, which apparently wished to acquire the bills for year-end statement purposes. Holdings of Government guaranteed securities showed a further small increase. Commercial and industrial loans were reduced slightly, apparently reflecting a belated seasonal decline.

In other reporting cities throughout the country there was also a fairly substantial increase in total loans and investments, which again was due in part to an increase in loans to security dealers. In these banks there was some further increase in commercial and industrial loans, contrary to the usual seasonal tendency, and holdings of Government and other securities also increased moderately. Investments in Treasury bonds increased more than $100,000,000, largely as a result of purchases of the new issue of December 8, but in these banks holdings of Treasury notes were reduced by more than $50,000,000 during the four weeks ended December 20, and holdings of Treasury bills and Government guaranteed obligations also showed some net decline.

Demand deposits declined somewhat in the New York City banks during the four week period, but increased further in the 100 other principal cities that are covered by the reports, to reach new high levels.

Government Securities

Allotments on public subscriptions to the new issue of 2 per cent Treasury bonds of 1948-50, which was offered November 28 and dated December 8, amounted to $521,347,000, including $21,693,000 which was allotted to subscribers for amounts of $5,000 or less, who specified that delivery be made in registered bonds 60 days after the issue date; in addition, $50,000,000 of the new bonds were sold to Treasury investment accounts. Following the completion of this "new money" financing, the Treasury on December 12 announced a refunding operation involving the issuance of 2¼ per cent Treasury bonds of 1951-53 and 1 per cent Treasury notes maturing September 15, 1944, in exchange for Treasury notes maturing March 15, 1940. Of the approximately $1,378,000,000 of March, 1940, notes outstanding, $1,018,000,000 were exchanged on December 22 for the new bonds and $283,000,000 were exchanged for the new notes, leaving about $77,000,000 to be redeemed next March. In addition the Treasury announced that $73,000,000 of the new bonds had been sold to Government investment accounts.

During the early days of December prices of Treasury bonds eased somewhat, owing to a slackening of investment demand, presumably reflecting investors' reaction to the Russian invasion of Finland. By the 6th of the month, however, prices began to firm and this advance was accelerated for a week after the terms of the Treasury's refunding program were announced on December 12. Subsequently, price movements became somewhat more irregular, but a small net advance occurred, and the average price of long term Treasury bonds toward the end of December showed a net advance of about 1⅛ points from the quotations prevailing at the end of November and reached the highest level since August 23, before the outbreak of war. As compared with the June high level of Treasury bond prices, quotations at the end of December were only 2 points lower, whereas, at the bottom of the market in September, prices were some 9¼ points lower. At the end of December the average yield on Treasury bonds not callable within

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12 years was within ¼ per cent of the low point of last June. Treasury note prices also advanced during December, as is indicated by a net decline of 0.20 per cent in the average yield on 3 to 5 year issues.

The usual weekly Treasury bill financing was consummated in December. Four weekly issues of $100,000,000 of 91 day bills, to replace similar maturities, were sold at average rates which ranged from 0.019 per cent down to 0.007 per cent.

Commercial Paper and Bills

A range of ½ to ⅝ per cent continued to be the prevailing level of rates for average grade prime four to six month commercial paper during December, although the larger portion of dealers' sales was made at ½ per cent. Bank investment demand for mercantile and industrial paper remained active, but largely unfilled, owing to the small quantities of new paper acquired by dealers for sale in the open market. The amount of commercial paper outstanding through dealers reporting to the Reserve Bank, at $214,000,000, was approximately $9,000,000 larger on November 30 than a month earlier. This increase of about 4 per cent occurred at a time when outstandings usually decline. The November total was approximately 4 per cent higher than that of a year previous.

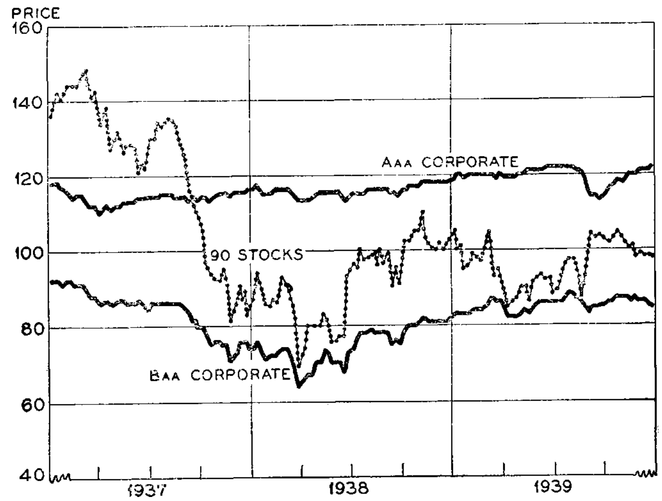
Trading activity in the bill market during December continued to be of small proportions. Bankers' bills were outstanding at the end of November in slightly larger amount than a month earlier, reflecting further increases in the volume of import bills and domestic warehouse credit bills. The increase of $18,000,000 during October and November raised the volume of import bills outstanding to the highest level since February, 1938. A decrease of $50,000,000 from November, 1938 in the total volume of outstanding bills has been due chiefly to reductions in export bills and in those based on goods stored in or shipped between foreign countries.

(Millions of dollars)

Type of acceptance	Nov. 30, 1938	Oct. 31, 1939	Nov. 30, 1939
Import	95	85	96
Export	59	40	37
Domestic shipment	10	11	11
Domestic warehouse credit	49	35	40
Dollar exchange	3	18	15
Based on goods stored in or shipped between foreign countries	57	32	24
Total	273	221	223

Security Markets

During December there was a continuance in the stock market of the inactive trading and narrow price movements of the two preceding months. On only five days of the past month was the volume of trading as much as one million shares, and the maximum range in the general average of the stock prices was only about 2 per cent. As the month closed, industrial and public utility stocks were slightly higher than at the end of November, while railroad shares were virtually unchanged. The accompanying diagram indicates the general level of stock prices, and also of corporate bond prices, at the end of the year, in comparison with the quotations prevailing during the previous three years.



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

Medium and lower grade corporation bonds, like stocks, showed small mixed price changes in December. Medium grade public utility bonds advanced about ⅜ of a point on the average to reach a new high level, and industrial issues also were firmer although they remained slightly below recent highs. Railroad bonds rose about ¼ point but were quoted at prices about 5½ points below their March highs, according to Moody's Investors Service average price of Baa railroad bonds.

In the high grade corporation bond market, further recoveries in prices occurred during December. The average advance of 1½ points for the month was less than that of the previous month, but it carried average prices of these bonds to the highest level since August 14 and to about ⅝ of a point of the July high. Thus, most of the 10 point drop in high grade corporate bond prices which occurred between July and late September, has now been recovered. Prices of high grade municipal bonds reached new highs for recent years, judging by the decline in the average yield on representative high grade municipals computed by the Standard Statistics Company.

New Financing

Accompanying the continued strength in high grade corporate and municipal bond prices in December, the market for new security issues exhibited a substantial increase in activity, and on the last full business day of the month there was publicly offered the largest piece of railroad bond financing since June, 1936—the $60,000,000 of Louisville and Nashville Railroad refunding bonds. The December volume of corporate and municipal financing, $330,000,000, was approximately 75 per cent larger than that of the preceding month and larger than that of any month since the start of the war in Europe. The amount representing new capital, however, still remained small. The major corporate offerings, in almost every case, were quickly absorbed by investors, quotations generally going to a premium over the offering price. Private sales of only three small corporate issues were reported during the month. The following were the principal corporate securities offered during December.

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$60,000,000 Louisville and Nashville Railroad refunding collateral trust bonds, of which $30,000,000 were ten year 3½'s priced at 101 to yield about 3.40 per cent, and $30,000,000 were twenty year 4's priced at 100½ to yield about 3.95 per cent

48,000,000 Public Service Company of Indiana refunding securities, of which $38,000,000 were first mortgage 4 per cent bonds of 1969 priced at 102, to yield about 3.90 per cent, and $10,000,000 were debenture 3⅞'s of 1940-49 priced to yield 0.65 to 4.20 per cent

45,000,000 Northern Indiana Public Service Company first mortgage refunding 3¾ per cent bonds of 1969 priced at par

10,900,000 Pennsylvania Water and Power Company refunding mortgage and collateral trust 3¼ per cent bonds of 1964 priced at 104, to yield about 3.00 per cent

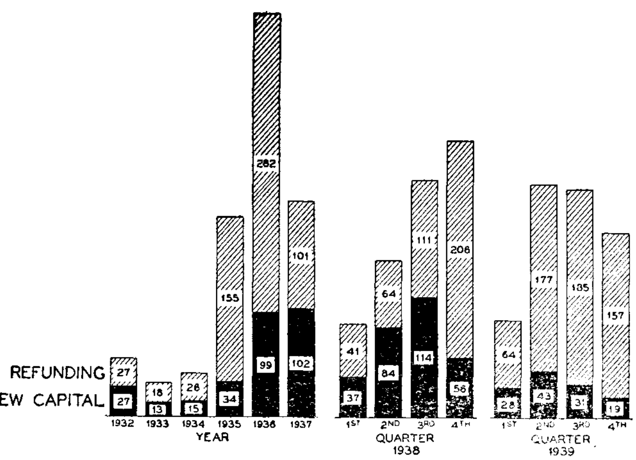
8,000,000 West Virginia Pulp and Paper Company first mortgage 3 per cent bonds of 1954 priced at 99, to yield about 3.08 per cent, for refunding

7,500,000 National Supply Company first mortgage 3¾ per cent bonds of 1954 priced at 101, to yield about 3.65 per cent—$5,600,000 for refunding

6,750,000 Southwestern Light and Power Company first mortgage 3¾ per cent bonds of 1969 priced at 102, to yield about 3.60 per cent, for refunding

Of the month's total financing, municipal obligations accounted for $90,000,000. Among the larger bond awards of this type were $10,500,000 State of New Jersey, unemployment relief 1¼ per cent bonds of 1942-49 (redeemable at par at the option of the State after December 15, 1942), awarded at 100.521 and reoffered to yield 0.40 to 1.30 per cent; and $10,000,000 Commonwealth of Pennsylvania Turnpike Revenue 3¾ per cent bonds of 1968 (redeemable on and after August 1, 1947 at prices from 104 to par), priced at 99½ to yield about 3.80 per cent. Temporary financing, other than the $14,500,000 Federal Intermediate Credit Bank 0.75 per cent consolidated debentures awarded toward the end of the month, totaled $60,000,000. Some slowing up in new registrations was evident during the past month, owing in part, perhaps, to the desire on the part of some companies to defer filing until financial statements covering the full calendar year's operations are available.

Preliminary figures indicate that for the entire year 1939 domestic corporate security issues averaged about $176,000,000 a month, of which an average of only $30,000,000 was for new capital purposes. This compares



Monthly Average Volume of Domestic Corporate Security Issues for Refunding and for New Capital (In millions of dollars)

with an average of $178,000,000 a month during 1938, of which $73,000,000 was for new capital. As is shown in the accompanying chart, the monthly average rate of corporate financing in the last quarter of 1939 was about 20 per cent below the level of the previous two quarters. The monthly average rate of corporate flotations for new capital during the last quarter was at the lowest level since the first quarter of 1935.

Foreign Exchanges

In a quiet market, New York rates for several leading foreign exchanges registered some advance during December.

The rate for the pound sterling, which had declined to as low as $3.87¾ on November 30, accompanying the outbreak of Soviet-Finnish hostilities, moved irregularly higher during the first half of the past month to reach $3.95¼ on December 14. Subsequently it held relatively steady, closing the month at $3.95¼. The discount on three month deliveries narrowed slightly during the month. Far Eastern and especially European holders continued to liquidate their sterling balances, but these offerings apparently were readily taken up by American importers and others owing debts expressed in terms of British exchange. Meanwhile, the English authorities are reported to have under contemplation plans to tighten exchange restrictions for the purpose of preventing unauthorized transfers of sterling assets from British to nonresident accounts, and thereby reducing the amount of sterling available for sale by nonresidents in outside "free" markets.

According to an agreement between the British and French Governments, announced on December 12, the franc will be linked to the pound at the rate of 176½ until six months after the signing of a peace treaty. The French franc in New York continued to move about parallel to the pound rate throughout the month, quotations advancing from the November 30 low of $0.0220 to a high of $0.0224½ on December 18 and ending the month at $0.0223¾, for a net gain of 3¾ points. In the forward market, discounts on three month francs, which were nominally quoted at the equivalent of about 16⅜ per cent per annum at the end of November, narrowed to about 9¾ per cent in the latter part of December.

Among the neutral European currencies, the Dutch guilder, which had been maintained around $0.5309 for about two months, firmed to as high as $0.5325 on December 18. This gain was subsequently canceled, following reports that an internal bond issue of 300,000,000 guilders had been incompletely subscribed by the public, but toward the end of the month Dutch exchange again firmed to $0.5320½. The rate for Belgian exchange showed a net improvement of 19 points for the month, closing at $0.1670, while the Swiss franc continued to move within relatively narrow limits.

Trading in the non-European exchanges was featured by an abrupt depreciation of the Mexican peso, which began on December 11, following the suspension by the Bank of Mexico of its supporting operations. The peso, which since the latter part of September had held near $0.2050, was quoted at about $0.1695 near the end of December, indicating a depreciation of 17 per cent since

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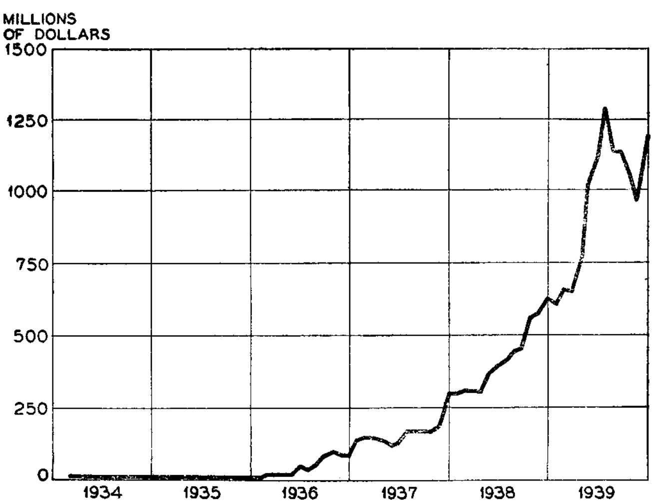
December 9. The Mexican authorities, who on December 15 declared the existence of a "condition of emergency" in foreign exchange, have attributed the present situation to the deterioration of Mexican export trade. The Cuban peso, on the other hand, improved somewhat during the month, particularly following the signature of a trade agreement providing for the restoration of the preferential duty on Cuban sugar imported to this country. The discount on Cuban exchange closed the month at about 11⅞ per cent, as against 12¼ per cent at the end of November. The Canadian dollar also showed a stronger tendency, and its discount against the United States dollar narrowed from 13⅜ to 11⅜ per cent.

Some demand for silver in this market appeared to have developed in the latter part of December and the New York market price for foreign silver rose to as high as 37 cents on December 20, or considerably above the United States Treasury Department's buying price of 35 cents an ounce, for the first time since the British and Indian authorities subjected importation of the metal to a licensing control toward the end of October. The Indian Government is reported to have relaxed its restrictions somewhat in order to ease the recent speculative rise in the Bombay price, which accompanied increased hoarding demand.

Gold Movements

Imports of gold into the United States during December were considerably larger than in November and, in fact, appear to have been in the largest volume since last April. However, the amount of gold held under earmark for foreign account at the Federal Reserve Bank of New York increased about $205,000,000 during the past month following a reduction of approximately $340,000,000 in the preceding four months. As is shown in the accompanying chart, the amount of gold held under earmark, after declining from the peak of $1,300,000,000 reached last July to about $960,000,000 at the end of November, rose during December to about $1,165,000,000. During December, the gold stock of the United States increased about $285,000,000, reaching a new high of approximately $17,640,000,000. For the year 1939, the gold stock rose about $3,130,000,000, as compared with a gain of $1,750,000,000 in 1938.



Gold Held Under Earmark for Foreign Account at Federal Reserve Banks

As reported by the Department of Commerce, gold imports into the United States during the three weeks ended December 20, totaled $361,000,000, of which $286,000,000 came to this country from Canada, $21,400,000 from Holland, $9,400,000 from Sweden, $7,200,000 from England, $6,300,000 from South Africa, $5,900,000 from Japan, $5,600,000 from Italy, $4,000,000 from Norway, $3,400,000 from Switzerland, $2,900,000 from India, $2,100,000 from Colombia, and $900,000 from Hong Kong.

Central Bank Rate Changes

The discount rate of the State Bank of Sweden was advanced from 2½ to 3 per cent on December 15. The lower rate had been in force since December 1, 1933.

Building

The daily rate at which construction contracts were awarded in New York and Northern New Jersey increased 52 per cent between October and November. Although each of the major construction categories registered an advance in November, the most pronounced gains were in large contracts placed for public purpose building and public utility projects, which included contracts for a central courts building in New York City and a unit of a steam generating plant in up-State New York. Awards for residential work showed an increase of 4 per cent and contracts for commercial and factory building were 28 per cent higher than in October. As compared with November, 1938, total contract awards in this area were 48 per cent greater; the largest gains were in the types of construction that showed the principal increases over October, but commercial and industrial contracts were more than 50 per cent larger than a year ago, and residential building contracts were about 10 per cent larger.

During November the average daily rate of construction contract awards in the 37 States included in the F. W. Dodge Corporation survey was the highest since December, 1938, and at a level 24 per cent above that of October. The gain over the previous month reflected expansion in all the major construction categories, the largest of which occurred in the heavy engineering classification owing to the inclusion in the November figures of $35,000,000 for a Tennessee Valley Authority project. Contracts for public purpose buildings increased 26 per cent over the relatively small volume in October; commercial and industrial contracts were 9 per cent larger, and residential building awards increased 7 per cent. The total volume of contracts was about the same as in November, 1938, as increases of 57 per cent in commercial and industrial awards, 22 per cent in residential building, 21 per cent in public utilities, and 15 per cent in public works were approximately offset by a 60 per cent reduction in contracts for public buildings.

For the first three weeks of December the daily rate of construction contract awards in 37 States was 19 per cent higher than in November and the same percentage above the corresponding period of 1938, owing to the inclusion in the public works classification of $117,000,000 for a Tennessee Valley Authority project. Residential building awards registered a 14 per cent gain over the first three weeks of December, 1938, but contracts for other types of building were reduced about 50 per cent.

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The following table shows percentage changes for the first eleven months of 1939 from the corresponding period of 1938 in construction contracts awarded in New York and Northern New Jersey, in other areas, and in the 37 States covered by the F. W. Dodge Corporation survey. The total value of contracts awarded in New York and Northern New Jersey was approximately the same in 1939 as in 1938, owing principally to a large decline in contracts for public utility projects which about offset a substantial gain in residential building. In other areas, however, total construction contracts showed an 18 per cent increase over the first eleven months of 1938; all the principal types of construction except public purpose building contributed in some measure to the advance. The increase of 57 per cent in contracts for public utility projects in other areas was in contrast to a decrease of 58 per cent in this class of awards in New York and Northern New Jersey. Contracts for commercial and industrial building also showed considerable expansion during 1939 in other areas, while in the New York area the volume was somewhat smaller than in 1938. Furthermore, the gain in residential building was larger in other areas than in the New York area. On the other hand, contracts for public purpose buildings showed a 22 per cent decline in other areas, compared with a slight increase in New York and Northern New Jersey.

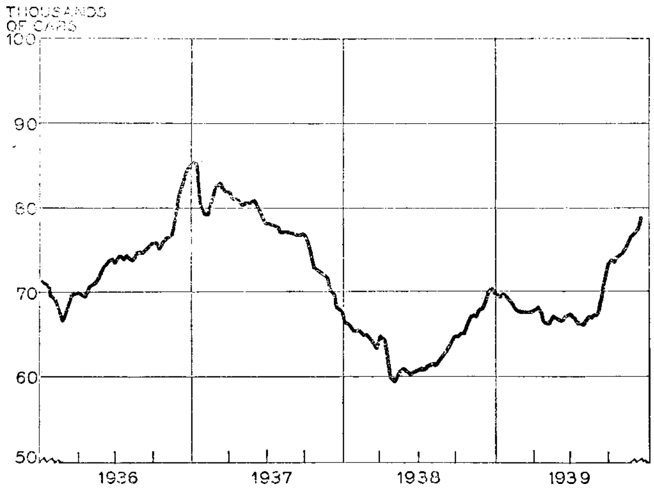
Percentage Change in Construction Contracts
First eleven months of 1939 compared with same period of 1938

	N. Y. and Northern N.J.	Other areas	37 States
Building			
Residential	+25	+44	+39
Commercial and industrial	−8	+30	+22
Public purpose*	+4	−22	−17
All building	+13	+19	+18
Engineering			
Public works	+6	+6	+6
Public utilities	−58	+57	+7
All engineering	−24	+15	+6
All construction	0	+18	+14

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

Production and Trade

After allowing for usual seasonal variations, it appears that business activity in general increased somewhat further in December. Steel mill operations slackened somewhat as the month progressed, though the decline was less pronounced than in most other years. Automobile production showed a marked increase in December, owing principally to the resumption of operations at the plants of a major producer which had been shut down on account of a labor controversy during most of October and November. According to trade reports, cotton textile mills continued to maintain a high rate of activity in December, although mill sales of cotton goods fell short of current production except for a brief period around the middle of the month. Usually railroad car loadings of merchandise and miscellaneous freight show a large decline in December; this year, however, the reduction appears to have been less marked than usual, and on a seasonally adjusted basis the movement of this type of freight continued the sharp advance which began in September, as the accompanying diagram indicates. Electric power production was at the peak of the year, as is usual in December;



Average Daily Car Loadings of Merchandise and Miscellaneous Freight, Adjusted for Seasonal Variation (Four week moving average)

the increase over November appears to have been of about the usual seasonal magnitude.

Business activity continued to rise in November, although at a somewhat slower pace than in either of the two preceding months. There was a further substantial gain in the production of durable goods, while production of nondurable goods in general was maintained at the level reached in October. The movement of freight over the railways, reflecting primary distri-

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

	1938	1939		
	Nov.	Sept.	Oct.	Nov.
Industrial Production				
Steel	84	94	115	126
Passenger cars	74	97	79	64
Motor trucks	71	70	148	87
Bituminous coal	80	91	98	95p
Crude petroleum	85	88	90	92p
Electric power	91r	98	99p	99p
Cement	63	60	64	67
Cotton consumption	96	110	111	115
Wool consumption	108	126	120	123p
Shoes	111	101	106p	113p
Meat packing	93	97	97	100
Tobacco products	95	89	92	95
Employment				
Employment, manufacturing, U. S.	94	98	102	105p
Employee hours, manufacturing, U. S.	80	86	88	92p
Construction				
Residential building contracts	42	52	44	49
Nonresidential building and engineering contracts	79	59	47	68
Primary Distribution				
Car loadings, merchandise and misc.	79	85	87	90
Car loadings, other	76	93	98	95
Exports	74r	88	86	80p
Imports	73	80	81	86p
Distribution to Consumer				
Department store sales, U. S.	87	88	87	93
Department store sales, 2nd District	79	82	80	85
Chain grocery sales	98	104	106	109p
Other chain store sales	93	100	95	97
Mail order house sales	90	105	101	97
New passenger car registrations	64	82	104	..
*Velocity of Deposits**				
Velocity of demand deposits, outside New York City (1919-25 average=100)	65	60	57	62
Velocity of demand deposits, New York City (1919-25 average=100)	36	34	29	30
*Prices and Wages**				
General price level (1913 average=100)	154	155	155p	155p
Cost of living (1913 average=100)	147	148	148	148
Wage rates (1926 average=100)	110	111	111p	..

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

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duction, increased further, seasonal factors considered. Distribution of goods to consumers in November also was higher than in the preceding month, as is indicated by the larger than seasonal advances in sales of department and chain stores, and trade reports indicate that the retail demand for automobiles was active.

Employment and Payrolls

For the fourth consecutive month increases were reported in New York State factory employment and payrolls in November. The gains, though somewhat less than one per cent in each case, came at a time of year when there are ordinarily sizable decreases in both employment and payrolls. Sharp seasonal declines in the apparel and food industries were more than offset by continued gains at metal and machinery, chemical, and textile plants. All subgroups except shipbuilding in the metals and machinery classification reported increased working forces in November; iron and steel, nonferrous metal, automobile, and airplane factories showed increases in number of employees of over 7 per cent each. Total factory employment in New York State advanced 13 per cent from July to November, and payrolls increased 16 per cent in the same period to reach the highest point since the spring of 1930. Compared with a year ago, employment in November was 14 per cent higher and payrolls were 20 per cent greater.

For the country as a whole, the United States Department of Labor reports a decrease in working forces in nonagricultural pursuits of about 100,000 persons in November, a much smaller reduction than ordinarily occurs at this time of the year. Further increases in durable goods manufacturing, in retail trade, and in mining partially offset declines in construction and transportation. It is reported that over 1,250,000 more persons were employed in nonagricultural occupations than in November, 1938.

United States factories employed 20,000 more workers in November than in the previous month, although usually working forces decline by about 150,000 persons during this period. Payrolls also increased slightly, contrary to the usual experience in November. Most of the employment increases occurred in durable goods lines, and were particularly marked at steel plants, foundries and machine shops, and at factories producing electrical apparatus, aircraft, and railway rolling stock. The nondurable goods classification as a whole showed a decline, substantial decreases being reported in food manufacturing, and in clothing and shoe plants. Total factory employment was 11 per cent above the level of a year ago while payrolls were 21 per cent higher.

Although farm employment in the United States declined less during November than is usual at this time of year, the Department of Agriculture estimates that the number of farm workers on December 1 was the smallest for that date in at least 14 years.

Commodity Prices

Following two months of irregularity, prices in several commodity markets rose substantially during December, both here and abroad. Moody's Investors Service index of 15 raw products advanced 6 per cent to about the same level as that prevailing at the end of September.

Probably the chief factor stimulating the rise in wheat prices to the highest levels in two years has been the protracted drought in the Southwest which, according to the Government estimate, may result in a 1940 winter wheat crop of only about 400,000,000 bushels, one of the smallest since the turn of the century. Other important factors include the spread of hostilities abroad and reports of frost damage to the Argentine crop. Wheat prices at Kansas City rose 18¼ cents to $1.08⅜ a bushel on December 19, but declined 5 or 6 cents subsequently as snowfalls improved crop prospects somewhat. Cash corn reached 58¾ cents a bushel, up 5½ cents from the end of November but 4¾ cents below the September high point. Hog prices, under the pressure of large supplies, declined further to $5.22 a hundredweight on December 15, the lowest since August, 1934, but rallied to show little change for the month as a whole. The average quotation of cotton at ten Southern markets rose to 11.11 cents a pound on December 13, about 1½ cents above the level prevailing at the end of November. Later in December the price reacted to 10¾ cents. Important factors in the rise were the enlarged exports induced by rapid price advances in foreign markets, active demand by domestic mills, and anticipation of the successive reductions in the export subsidy (from 1½ cents to 1/5 cent a pound). Repossessions of 1938 cotton from the Government loan stock on a considerable scale have been reported. Little change took place in wool quotations, while silk moved up $1.14 to $4.59 a pound, approximately three times the lowest price in 1938, reflecting scarcity of supplies and a high rate of consumption in Japan. Hide prices were one cent higher at 15 cents a pound as demand from tanners increased, while rubber declined to 19¼ cents a pound, a new low point since before the war, despite continued large domestic consumption. The price of raw sugar in New York eased 13 points to 2.82 cents a pound, the lowest level since August 15, following the announcement of the new Cuban-American trade agreement reducing the sugar duty from $1.50 to 90 cents per hundred pounds, effective December 27, and the restoration of sugar marketing quotas, effective January 1, 1940.

An easier undertone prevailed in metal markets generally during December. The Iron Age composite price of scrap steel, continuing its decline from the high point of $22.50 on October 3, receded 91 cents during December to $17.67 a ton. The price of zinc was reduced ½ cent to 6 cents a pound, the first decline in more than a year, and the export price of copper moved somewhat lower. Tin displayed a declining tendency throughout the month as the International Tin Committee announced that the permissible export quotas for the first three months of 1940 would be 120 per cent of basic tonnage, instead of 100 per cent as originally announced.

Foreign Trade

During November merchandise exports from this country were valued at $293,000,000 and imports at $235,000,000, both substantially larger than in November, 1938. Exports, however, showed a larger decline from the comparatively large volume for October than is customary at this season of the year, while imports registered a material advance over October, contrary to the usual seasonal movement between these two months. The resulting export balance of $57,000,000 in November

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was smaller than in other recent months and was also less than the November, 1938 figure, which amounted to $76,000,000.

The accompanying table shows the year-to-year changes which have occurred in the principal export and import classifications, for the first eleven months of 1939 and for the period since the outbreak of the European war. For the first eleven months of 1939, the value of all exports was slightly lower than in the same period of 1938, as large reductions in the first half of the year somewhat more than counterbalanced gains in recent months. In the three months following the beginning of the war, aggregate exports showed a 17 per cent increase over the comparable period of 1938, and the year-to-year gain in November amounted to 15 per cent. Increased foreign demand for wholly and partly finished American manufactures, especially aircraft, products of aluminum, copper, iron and steel, and certain chemicals, machinery, and petroleum products, were leading factors in the expansion of aggregate exports since last September. Shipments of unmanufactured cotton among the crude materials also showed large gains, while exports of tobacco, in the same category, were greatly reduced. Despite war activities abroad, exports of foodstuffs from this country have continued to run substantially below those of a year ago.

Percentage Change in Values
Different periods of 1939 compared with corresponding periods of 1938

	Exports*			Imports**		
	Nov.	Sept. to Nov. (incl.)	Jan. to Nov. (incl.)	Nov.	Sept. to Nov. (incl.)	Jan. to Nov. (incl.)
Crude materials	— 2.6	+ 6.3	—14.9	+43.9	+34.7	+25.8
Crude foodstuffs	—55.2	—40.5	—56.7	+17.2	+10.6	+11.9
Manufactured foodstuffs	— 0.9	+19.5	+11.4	— 5.2	+11.3	— 2.2
Semimanufactures	+58.2	+49.8	+18.4	+38.2	+26.6	+23.3
Finished manufactures	+18.5	+16.1	+ 6.4	+ 9.2	— 0.7	+ 5.4
Total	+14.9	+16.5	— 0.9	+24.9	+18.7	+14.5

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

With respect to imports the aggregate value for the first eleven months of 1939 showed a gain of 15 per cent over the level in the same months of 1938. In the September to November period the expansion of imports amounted to 19 per cent, and in November the value of imports was 25 per cent greater than a year previous. The greater increase for the period since last September reflected principally larger demand for foreign raw materials, such as crude rubber, raw silk, unmanufactured wool, and hides and skins, accompanying accelerated industrial activity in this country. Imports of such semimanufactured products as copper, nickel, tin, and woodpulp also registered comparatively large year-to-year gains in recent months. The rather large November increase in imports of crude foodstuffs was due chiefly to larger receipts of cocoa and coffee. The gain of 9 per cent over a year previous in imports of manufactured goods was due principally to larger receipts of burlap and newsprint paper; for the September to November period, however, finished manufactured imports were less than a year ago, as compared with a gain for the eleven months. Imports of manufactured foodstuffs, including especially sugar, edible vegetable oils, and liquors, registered a decrease of 5 per cent from November, 1938, although for the September to November period as a whole they were larger than a year previous.

Department Store Trade

For the three weeks ended December 23, total sales of the reporting department stores in this District were about 5½ per cent higher than in the corresponding period of 1938, and the daily rate of sales for this portion of December showed about the usual seasonal advance from November, which was a relatively good month for retail trade. Total department store sales for the year 1939, based on final figures for 11 months and an estimate for the full month of December, were about 2½ per cent larger in dollar volume than in 1938, as compared with a decrease of about 7 per cent between 1937 and 1938.

Total November sales of the reporting department stores in this District were about 8½ per cent higher than in November, 1938, the largest year-to-year increase in over two years, and sales of the leading apparel stores in this District were 5½ per cent larger. During November, the daily rate of sales in the department stores advanced considerably more than usual from the October level.

For all reporting department stores, stocks of merchandise on hand, at retail valuation, were slightly higher at the end of November, 1939 than at the end of November, 1938, the first increase in two years; New York and Brooklyn department store stocks, however, remained slightly smaller than a year previous, and apparel store stocks continued lower. Collections during November were at a somewhat higher rate than in 1938, both in the department and the apparel stores.

Locality	Percentage change November, 1939 compared with November, 1938		Per cent of accounts outstanding October 31 collected in November	
	Net sales	Stock on hand end of month	1938	1939
New York and Brooklyn	+ 7.4	—1.2	50.4	51.9
Buffalo	+11.3	+5.8	42.7	45.8
Rochester	+11.7	+6.3	55.0	62.0
Syracuse	+13.1	+9.0	43.4	43.8
Northern New Jersey	+10.7	+4.6	43.9	42.2
Bridgeport	+15.6	+3.5	41.0	40.8
Elsewhere	+13.2	+6.4	36.3	38.0
Northern New York State	+11.9	....	....	....
Southern New York State	+ 9.6	....	....	....
Central New York State	+16.1	....	....	....
Hudson River Valley District	+14.6	....	....	....
Westchester and Stamford	+10.9	....	....	....
Niagara Falls	+13.8	....	....	....
All department stores	+ 8.7	+0.9	47.6	48.7
Apparel stores	+ 5.5	—2.3	48.0	49.1

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

	1938	1939		
	Nov.	Sept.	Oct.	Nov.
Sales, unadjusted	106	97	104	115
Sales, seasonally adjusted	89	93	91r	97
Stocks, unadjusted	93r	81	88	93
Stocks, seasonally adjusted	78r	78	77	78

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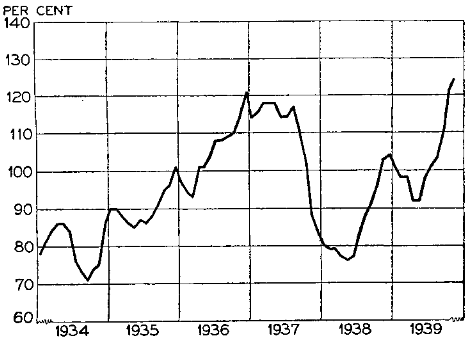
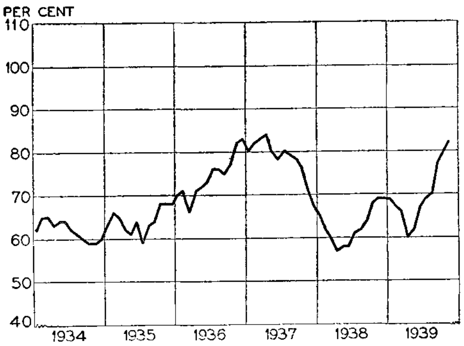
FEDERAL RESERVE BANK OF NEW YORK

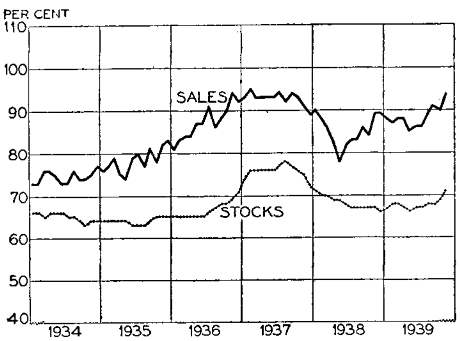
MONTHLY REVIEW, JANUARY 1, 1940



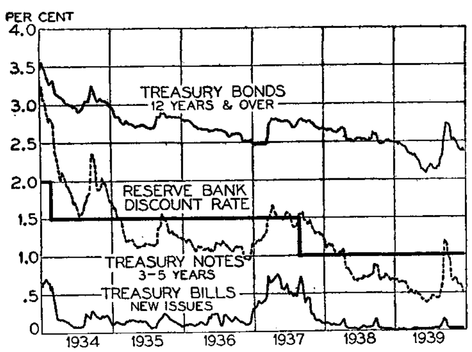
Index of Physical Volume of Industrial Production, Adjusted for Seasonal Variation (1923-25 average=100 per cent)



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



Indexes of Value of Department Store Sales and Stocks, Adjusted for Seasonal Variation (1923-25 average=100 per cent)



Money Rates in New York City

Business Conditions in the United States

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

FOLLOWING a rapid rise after the outbreak of the European war industrial activity continued at a high level in November and the first half of December. There was a considerable increase in distribution of commodities to consumers while prices of basic commodities, which had been steady during November, rose somewhat in the first two weeks of December.

Production

The Board's seasonally adjusted index of industrial production advanced from 121 to 124 per cent in November, reflecting sustained activity at a period of the year when a decline is usual. Production of durable goods, which had advanced rapidly for several months, showed a further expansion. Record production of steel ingots continued in November and was followed by a less than seasonal decline in the first half of December. Automobile production increased in November, notwithstanding the fact that plants of one important company remained closed pending settlement of an industrial dispute. After this was settled at the end of November assemblies rose sharply. Retail sales of new automobiles were in large volume in November and at the end of the month dealers' stocks of new cars apparently were smaller than at the corresponding time in other recent years. Lumber production declined less than seasonally in November but plate glass production, which had reached a high level in October, showed a reduction.

Output of nondurable goods continued at a high level in November. At cotton and woolen mills activity increased somewhat further and was close to the record levels reached three years ago. Rayon production advanced to new high levels but at silk mills there was a sharp decline following substantial increases earlier this fall. Output of flour and sugar declined further from the levels reached in September while changes in activity at shoe factories and meat packing establishments were largely seasonal in character.

Coal production in November declined somewhat from the high level reached in October. Output of crude petroleum increased further and iron ore shipments continued in exceptionally large volume until the Great Lakes' shipping season closed in the latter part of the month.

Value of construction contracts, as reported by the F. W. Dodge Corporation, increased in November following a sharp decline in October. In both months changes in total awards reflected principally fluctuations in the volume of contracts for public construction. Private residential awards declined somewhat less than seasonally in November, while awards for other private projects showed little change. Contracts for private work, both residential and nonresidential, were larger than a year ago, while those for public projects were below the high level of that time when contracts under the Public Works Administration program were being awarded in large volume.

Employment

Factory employment and payrolls continued to increase in November, reflecting chiefly further sharp advances in industries producing steel, machinery, and other durable goods.

Distribution

In November distribution of commodities to consumers increased considerably. The Board's seasonally adjusted index of department store sales, which had been around 90 in the three preceding months, advanced to 94, a level about the same as at the peak in 1937 when prices of commodities sold at department stores were generally somewhat higher than at present.

Freight car loadings showed less than the usual seasonal decrease from October to November and the Board's adjusted index increased from 80 to 82, which was only slightly under the recovery peak reached in the early part of 1937. Shipments of ore and miscellaneous freight declined less than is usual in November, while loadings of coal decreased more than seasonally from the relatively high October level.

Commodity Prices

Prices of both industrial materials and foodstuffs advanced from the latter part of November to the middle of December. Wheat and silk prices rose considerably and there were smaller increases in cotton and hides. Prices of steel scrap and nonferrous metals, on the other hand, showed declines.

Government Security Market

Prices of United States Treasury bonds advanced sharply during the last half of November to a level not far below the all-time high point of last June and remained steady during the first half of December.

Bank Credit

Total loans and investments at reporting member banks in 101 leading cities rose substantially during November and the first half of December, reflecting largely purchases of new United States Government securities. Commercial loans, which had been increasing since August, continued to rise until the third week in November. Deposits increased further.

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