MONTHLY REVIEW
of Credit and Business Conditions
Second Federal Reserve District

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

Money Market in January

The volume of excess reserves held by member banks rose rapidly in January and before the end of the month reached new high levels in New York City banks and also in all member banks. Excess reserves of the New York City banks on January 24 were $3,160,000,000, and the total for all member banks was $5,590,000,000, or $60,000,000 above the high point reached on October 25, 1939.

For the country as a whole, the largest single factor in the expansion of bank reserves was the seasonal retirement of currency from circulation. In the five weeks ended January 24, the net amount of currency returned to all Federal Reserve Banks was $314,000,000. This figure, however, is less than half the amount of currency paid out by the Reserve Banks between the summer low point on July 26, 1939, and the seasonal peak on December 20, thus indicating a continuation of the strong upward trend in currency circulation, which has been due in part to foreign demands for our currency, but more largely to increased use of currency in the United States.

A second factor of considerable importance in increasing member bank reserves was the continued inflow of gold from abroad. While a large part of the current gold movement is for foreign official accounts, so that payments for the gold by the Treasury do not go directly into member bank reserves, the proceeds on the whole have apparently been disbursed rapidly, as foreign deposits in the Reserve Banks have shown little net change. In the four weeks ended January 24, the increase in United States gold stock amounted to $259,000,000, and the gold flow was continuing in substantial volume toward the close of the month.

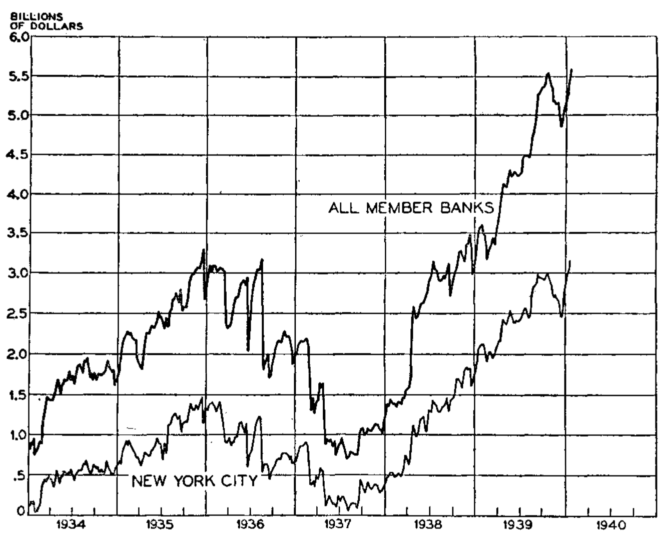
The third principal factor was an excess of Government disbursements over receipts. In the four week period the total of cash in the Treasury and Treasury deposits in Federal Reserve Banks was reduced by $175,000,000, the disbursements tending to increase member bank holdings of reserve funds by a like amount.

While in New York City, as well as in other parts of the country, the seasonal return flow of currency was a factor in the increase in bank reserves, larger elements in the case of the New York City banks were the disbursement of the proceeds of incoming gold, a substantial inflow of funds from other parts of the country, and redemptions of maturing Treasury bills. The New York market bid successfully for only a small part of the new Treasury bills issued in January, as most of them were taken by Chicago institutions which had placed very high bids in order to obtain tax exempt securities maturing shortly after April 1, the date on which a tax on bank deposits in the Chicago area is assessed. In addition, the Treasury bill issues on January 17 and on January 24 were $50,000,000 less than the amount maturing in each case. As a result of these two factors, the net amount of maturing bills redeemed by the Treasury in New York over the amount of new bills sold here was about $240,000,000 in the four weeks ended January 24.

Money Rates

The unusual demands for Treasury bills and the reduced supply resulted in the sale of new issues in January at prices so high that the new bills brought no interest yield to most of the purchasers. In fact, bids for a substantial part of the new issues were slightly above par, despite the fact that these securities carry no interest coupons, so that such bidders actually paid the Treasury for the privilege of holding the bills for three months.

The market for the highest grade securities of all maturities was strong at the beginning of January, and yields declined further. Yields on high grade corporation and municipal bonds reached new low levels, and yields on Treasury notes and bonds declined to the lowest levels since last summer. Thereafter the market for such



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

securities was subject to conflicting forces—on the one hand there was the pressure of the increasing volume of idle money in the banks, tending to lift prices and depress yields still further, and on the other hand there were reports from Europe which were interpreted as foreshadowing an intensification of the war which might have greater effects on this country than have been experienced thus far, and which, therefore, tended to depress security prices and raise yields somewhat. Security prices, consequently, fluctuated irregularly during the latter part of the month, and in general yields on high grade bonds showed a small net rise.

Money Rates in New York

	Jan. 31, 1939	Dec. 30, 1939	Jan. 30, 1940
Stock Exchange call loans	1	1	1
Stock Exchange 90 day loans	*1¼	*1¼	*1¼
Prime commercial paper 4–6 months	½–⅝	½–⅝	½–⅝
Bills—90 day unindorsed	7/16	7/16	7/16
Average yield on Treasury notes (3–5 years)	0.62	0.46	0.50
Average yield on Treasury bonds (not callable within 12 years)	2.45	2.30	2.34
Average rate on latest Treasury bill sale, 91 day issue	0.007	0.007	0.004
Federal Reserve Bank of New York discount rate	1	1	1
Federal Reserve Bank of New York buying rate for 90 day indorsed bills	½	½	½

*Nominal

Member Bank Credit

Total loans and investments of weekly reporting New York City member banks declined substantially between December 20 and January 3, but subsequently turned upward again. The decline in the two weeks before January 3, which amounted to $453,000,000, reflected chiefly reductions of $198,000,000 in the holdings of Treasury bills and $128,000,000 in loans to security brokers and dealers supplemented by smaller reductions in holdings of other Government securities and in commercial and industrial loans. An exchange of Treasury notes maturing in March, 1940, for Treasury bonds affected the composition of Government security portfolios, but aside from this factor it appears that the New York City banks were sellers of Government bonds on balance in this period when the market was especially strong. In the following three weeks Treasury bill holdings decreased $40,000,000 further, as the New York City banks were outbid by Chicago banks for the new issues, but Treasury bond holdings were increased $152,000,000, largely in the week ended January 17, when the market was weakened by selling from other quarters, apparently induced by news from Europe. Commercial and industrial loans and loans to security brokers and dealers, however, showed some further reduction.

Total loans and investments of reporting member banks in 100 other principal cities throughout the country increased $112,000,000 further in the five weeks ended January 24, owing entirely to the heavy purchases of Treasury bills by the Chicago banks, whose holdings increased $294,000,000. Commercial and industrial loans showed a seasonal decline of $59,000,000, loans to security brokers and dealers declined $43,000,000, and there were small reductions in other types of earning assets. Total holdings of Treasury bonds and notes by these banks rose $72,000,000 in the week ended December 27, but declined $85,000,000 in the following four weeks.

Demand deposits of the reporting banks declined substantially over the year end in New York and elsewhere, but in the following three weeks rose to new high levels in New York City and increased considerably in other cities also.

Government Securities

The Government security market continued firm during the first ten days of January. In this period the average price of Treasury bonds not callable within 12 years rose an additional ¼ point, reflecting both small-lot buying and several sizable orders, and also some operations involving switches of holdings by investors. In the succeeding week, however, the average price of long term Treasury bonds eased about ⅞ of a point, as some selling pressure from various sections of the country appeared in the market, owing to interpretations placed on news of foreign developments. Accompanying this selling there soon developed fairly heavy buying by New York City banks, and prices of long term Government's subsequently recovered nearly ½ point. In the closing days of the month, however, prices tended to ease again, and the average price of long term issues at the end of the month was about ⅝ of a point lower than at the end of December. Treasury note prices also advanced further early in January, but subsequently declined somewhat, and at the close of January the average yield on 3 to 5 year maturities was 0.50 per cent, as compared with 0.46 per cent at the end of December.

The weekly sales of Treasury bills during January were subject to special demands connected with the future use of these bills (which mature in April) to obtain exemption from taxes on bank deposits, particularly in the Chicago Federal Reserve District. For the issue dated January 3, to which tenders aggregated $580,000,000, a larger amount than for any previous issue, and also for the issue dated January 10, the accepted bids were all at slight premiums; for the issue of January 17 the accepted bids were at prices at or slightly above par, and for the January 24 issue the accepted bids ranged from prices slightly above to slightly below par, the average price being only slightly below par. The issue dated January 31 was sold at an average rate of 0.004 per cent, as compared with 0.007 per cent on the last issue of December. Another factor operating to reduce the yields on Treasury bills was a decline in the amount outstanding as a result of the maturity during the month of the three issues which had been sold three months previously in the increased amount of $150,000,000, in replacement of which the Treasury sold $100,000,000 issues during the past month. In the aggregate, January bill maturities totaled $650,000,000, and new issues $500,000,000.

Commercial Paper and Bills

Average grade prime four to six month commercial paper continued to be sold principally within a range of ½-⅝ per cent during January. The amount sold at ⅝ per cent, however, has diminished further, while the amount sold at ½ per cent has increased, and occasional sales have been reported at $\frac{3}{8}$ per cent, when paper of unusually choice grade and short maturity became available to dealers. As is usual in January, the supply of commercial and mercantile notes acquired by dealers increased somewhat, but the rapid movement of paper from dealers' to investors' portfolios continued, as the bank investment demand remained active. The amount of paper outstanding through commercial paper houses at the end of December totaled $209,900,000, as compared with $214,400,000 at the end of November, and $186,900,000 in December, 1938. The decline from November to December was less than the usual seasonal decrease, and the indicated increase of 12 per cent over the level of the previous year is the largest to appear since January, 1938.

No change occurred during January in the quiet conditions that have prevailed in the bill market for some time past, and dealers' quoted rates were steady. At the end of December, the value of bills outstanding totaled $233,000,000, an increase of about $10,000,000 over November, the largest portion of which occurred in the import classification, which reached the largest total in nearly two years. In addition, domestic warehouse credit bills expanded to the highest total in a year. The primary influences in the $37,000,000 decline in outstandings from the level of a year previous have been reductions in bills based on goods stored in or shipped between foreign countries, and in export bills.

(Millions of dollars)

Type of acceptance	Dec. 31, 1938	Nov. 30, 1939	Dec. 30, 1939
Import	95	96	102
Export	60	37	39
Domestic shipment	12	11	10
Domestic warehouse credit	45	40	44
Dollar exchange	3	15	16
Based on goods stored in or shipped between foreign countries	55	24	22
Total	270	223	233

Security Markets

Stock prices tended to be firmer during the first week of January, but declined about 5 per cent during the second week of the month. Subsequently, the general average of prices fluctuated irregularly at levels slightly above the midmonth low point. Both industrial and railroad stocks showed some net decline for the month, while public utility shares remained virtually unchanged. Trading volume on the New York Stock Exchange remained at a very low figure for January, and daily turnover reached as much as one million shares in only two trading sessions. The general level of share prices at the end of January was at least one-fourth lower than in the first part of 1937 when the level of production and trade was no higher than at the present time.

Prices of medium grade railroad bonds advanced about $1\frac{1}{2}$ points in the first week of January, following an advance of more than 1 point in the last week of December, and industrial and public utility bonds of the Baa grade also firmed somewhat. Subsequently the movement was reversed, but both railroad and utility Baa bonds ended the month somewhat higher than at the end of December.

The recovery in high grade corporate bonds which occurred in the last three months of 1939 carried through the first ten days of January, with a consequence that the average price of Aaa bonds computed by Moody's Investors Service reached a new high level, exceeding by about $\frac{1}{2}$ point the high of last July. Following the attainment of this new high some net decline occurred in top grade industrial and utility issues, and although high grade railroad issues continued to advance, the average price of the several types of Aaa bonds at the close of January was about $\frac{1}{2}$ point below the peak reached earlier in the month. Prime municipal bonds likewise rose to new highs during the first ten days of January, but subsequently eased somewhat, according to the Standard Statistics Company yield average.

New Financing

During January there was some increase in the amount of corporate financing to raise new capital, and some of this increase represented equity capital. In the case of almost every public flotation, the securities were sold rather quickly by the offering syndicates, and investment demand caused the issues to go to small premiums over the offering prices. The total of about $30,000,000 of new capital raised through corporate bonds, notes, and stocks offered to the public or sold privately, was the largest for any month since last July, and the amount of stock issues, at $12,000,000, exceeded that of any month since last April. Common stock flotations of two aircraft companies accounted for the bulk of these stock issues. In addition to the new capital issues, corporate refunding offerings totaled $135,000,000. Among the major corporate issues of the month were the following:

$67,300,000	American Gas and Electric Company refunding securities, of which $8,000,000 were ten year $2\frac{3}{4}$'s priced at $102\frac{1}{2}$ to yield about 2.47 per cent; $10,000,000 were twenty year $3\frac{1}{2}$'s priced at $103\frac{1}{2}$ to yield about 3.26 per cent; $12,000,000 were thirty year $3\frac{3}{4}$'s priced at $103\frac{1}{2}$ to yield about 3.56 per cent; also 355,600 shares of $4\frac{3}{4}$ per cent cumulative preferred stock offered first to holders of the outstanding 6 per cent preferred stock, and then to the public at 105
20,400,000	Chicago, Rock Island and Pacific Railway $2\frac{1}{2}$ per cent equipment trust certificates of 1940-47 awarded at 100.815 (average interest cost of 2.29 per cent), for refunding—privately sold
18,600,000	Consumers Power Company first mortgage $3\frac{1}{4}$ per cent bonds of 1969 priced at $105\frac{1}{2}$ to yield about 2.97 per cent, for refunding
15,000,000	Consolidated Telegraph and Electrical Subway Company debenture $3\frac{1}{4}$'s of 1960 sold privately at 102.22 to yield about 3.10 per cent, to repay intercompany loans
11,000,000	Pennsylvania Water and Power Company refunding mortgage and collateral trust $3\frac{1}{4}$'s of 1970 priced at 105 to yield about 3.00 per cent
11,000,000	Libby, McNeill and Libby first mortgage sinking fund 4 per cent bonds of 1955 priced at 100, chiefly for refunding
6,000,000	Lockheed Aircraft Corporation common stock priced at $28.50 per share, for new capital purposes
3,000,000	Vultee Aircraft, Inc., common stock priced at $10 per share, for new capital purposes

The supply of new municipal securities which came on the market during the month was somewhat less than usual. This situation helped the issuing authorities to obtain high prices for their security flotations, and also was probably a factor in causing prices of outstanding municipal issues to reach new highs around the 10th of the month. It was announced on January 24 that two banking houses had purchased from the Reconstruction Finance Corporation (at a price of 103), and placed privately, $20,050,000 of Philadelphia Gas Revenue Trust 3½ per cent certificates due from 1940 to 1957. The certificates represent one half of the unmatured portion of a total issue of $41,000,000, which was divided equally between the Reconstruction Finance Corporation and Philadelphia bankers last July. Among the other municipal bond offerings were $5,500,000 Los Angeles, California, water works refunding revenue 2¾ per cent and 3¼ per cent bonds of 1943-59, which were awarded at par and reoffered to yield 1.25 to 3.00 per cent.

Temporary financing, totaling $145,000,000, included $35,000,000 New York City 0.25 per cent three month revenue bills, $34,500,000 local housing authorities' 0.45 per cent six month notes, and $29,500,000 Federal Intermediate Credit Bank 0.75 per cent three month and five month consolidated debentures.

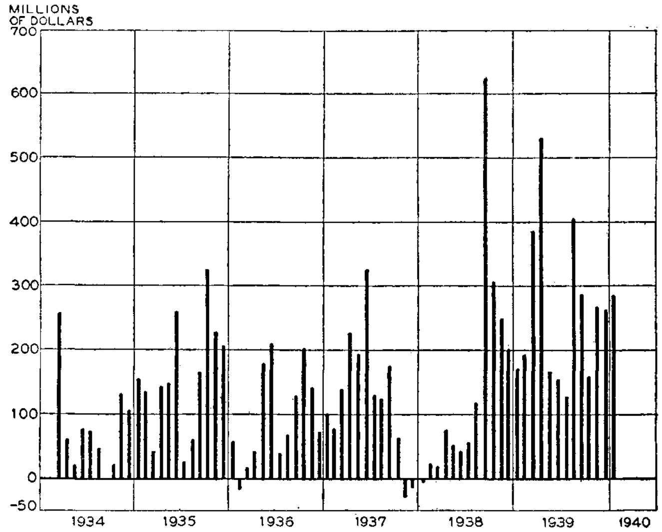
Registration statements filed with the Securities and Exchange Commission were not as numerous in January as during other recent months, a fact which is partially explainable by the desire of some companies to postpone registration of securities until final year-end financial statements are available. Those filed included $25,000,000 Dayton Power and Light Company bonds, $16,000,000 first mortgage bonds and 75,000 shares of preferred stock of the Southwestern Gas and Electric Company, and a statement outlining the optional terms upon which the Republic of Panama proposes to refund approximately $18,000,000 of outstanding defaulted debt held by Americans.

Central Bank Rate Changes

Effective January 25 the discount rate of the National Bank of Belgium was lowered from 2½ to 2 per cent, or the third successive reduction since April, 1939, when the rate was 4 per cent. The 2 per cent rate has been in effect only once before (May 16, 1935 to May 9, 1938) and is the lowest ever fixed by the National Bank of Belgium since its establishment in 1850.

Gold Movements

Imports of gold into the United States during January appear to have been in smaller volume than in December, but the amount of gold held under earmark for foreign account at the Federal Reserve Bank of New York decreased about $40,000,000 during the month, as compared with an increase of $200,000,000 in December. Consequently the gold stock of the United States increased about $290,000,000 in January, or about the same as in December, and reached a new high of approximately $17,935,000,000. As is shown in the accompanying chart, gains to the United States gold stock during the past three months have been among the largest of the whole period since 1934, excepting only certain months marked by crises abroad. At the end of January, the amount of gold held under earmark for foreign account at the Federal Reserve Bank of New York was about $1,125,000,000.



Monthly Change in United States Gold Stock (January, 1940 figure partly estimated)

As reported by the Department of Commerce, gold imports into the United States during the four weeks ended January 24, totaled $229,200,000, of which $68,800,000 came from Canada, $37,700,000 from Japan, $20,600,000 from the Netherlands, $19,600,000 from England, $17,600,000 from South Africa, $16,700,000 from Norway, $15,300,000 from Sweden, $8,600,000 from India, $6,100,000 from Australia, $5,000,000 from Hong Kong, $2,300,000 from Italy, and $1,200,000 from Switzerland.

Foreign Exchanges

Trading in foreign exchanges during January was featured by continued strength in rates for the Allied currencies, outside the official markets, and by rather wide and irregular fluctuations in quotations for Dutch and Belgian exchanges.

After opening the month at $3.95½, the pound-dollar rate in the New York market underwent a rather sharp recession early in the month, accompanying a temporary reaction in the Amsterdam market. Quotations went as low as $3.91⅜ on January 5, three days prior to the application of the British order-in-council imposing closer official supervision over transfers of sterling assets from resident to nonresident accounts. Subsequently, however, renewed strength developed in British exchange and toward the end of January the rate reached $4.00, the highest level since early in November and only 2½ cents below the new official London selling rate for dollars, referred to below. In sympathy with the spot rate, forward sterling deliveries also showed a firmer tendency; discounts on one and three month contracts narrowed from 4 9/16 and 5 1/16 per cent per annum, respectively, at the end of December, to 2⅝ and 3¾ per cent at the end of January. The past month's improvement in the pound sterling may be associated in some part with a diminution of offerings as a result of the tightening of exchange regulations on January 8. A further contributing factor, however, was a temporary demand for sterling in New York in the latter part of the month, for use in arbitrage transactions involving the acquisition of French francs against sales of sterling in neutral European markets.

Accompanying the tightening of the exchange control on January 8, the Bank of England's quotations for the dollar and for other major currencies were altered slightly so as to narrow the "spreads" between selling and buying rates. The new pound-dollar rates of \$4.02½ and \$4.03½ compare with the former rates of \$4.02 and \$4.04, which had been in effect since September 14. The current London rates for French exchange are 176½ and 176¾ francs to the pound.

In this market, the franc continued to move approximately in line with sterling, although there was some independent demand for French exchange in the latter part of the month. The New York rate declined, along with sterling, to \$0.0221⅞ on January 5, but appreciated during the remainder of the month to close at \$0.0226½ for a net gain of 2⅛ points for the month as a whole.

Stimulated largely by short covering, the rate for Dutch guilders advanced 26 points during the first half of the month to \$0.5354, the highest level since the beginning of the European war. Accompanying reports that the Low Countries were taking military precautions against a possible violation of their neutrality, however, the guilder subsequently declined considerably, to reach \$0.5313 on January 17. Dutch exchange was further depressed later in the month, coincident with the announcement on January 24 of the Netherlands Government's plan to defray mobilization expenditures and to reimburse the Bank and the Equalization Fund for losses on sterling and gold operations, respectively, by revaluing upward the National Bank's gold reserve. According to this proposal, the Bank's gold would be marked up sufficiently to offset 18 per cent out of the 22 per cent depreciation which the guilder had undergone in the exchange market. At the end of the month the guilder was quoted at \$0.5309, as against \$0.5328 a month earlier.

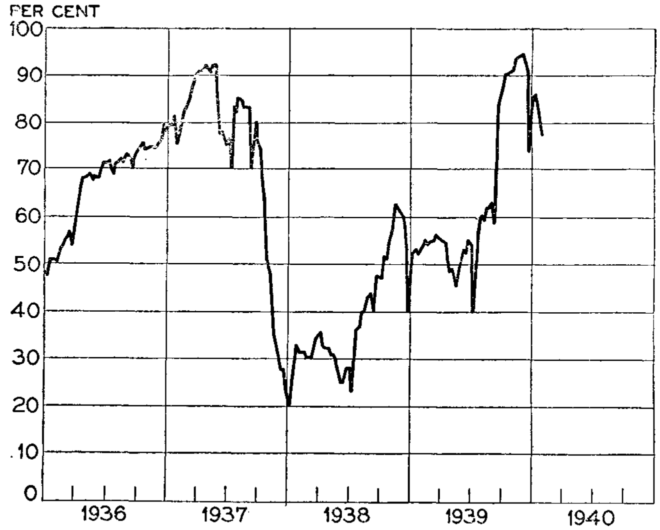
The belga moved irregularly within a range of \$0.1687 and \$0.1674 until January 24, when the rate firmed, accompanying a reduction from 2½ to 2 per cent in the Belgian National Bank's discount rate. Toward the end of January Belgian exchange rose to \$0.1697, the highest rate in about four months. In contrast to the movements of the guilder and the belga, the Swiss franc continued to hold steady at about the rate which has prevailed since early last October.

Among other exchanges, the Mexican peso declined further in terms of the dollar at the beginning of the month, but subsequently steadied at about \$0.1672. This rate represents a depreciation of about 18 per cent from the level existing prior to the decline which began on December 11. The Cuban peso, on the other hand, showed some advance during the past month, its discount against the dollar narrowing to about 9½ per cent, the smallest since the latter part of last October.

Production and Trade

The substantial rise in business activity which occurred in the last seven months of 1939, was followed by a downturn in January.

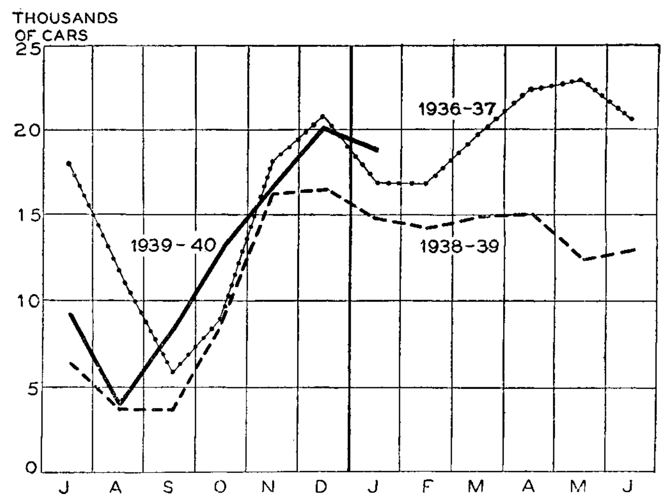
Steel production, which ordinarily begins a seasonal rise in January, continued to recede from the high point reached in November, as the accompanying diagram indicates. New business booked by steel mills during the month fell considerably behind shipments, indicating that current production was sustained to a large extent by the backlog of orders accumulated during the fall of 1939. There is some evidence, however, that steel consumers are now using more steel than they are buying. For example, automobile production, shown in the diagram below, has been running at a level comparable with that of the 1937 model season, and the indicated decline from December to January was smaller than in any of the preceding four years.



Steel Mill Activity (Ingot output expressed as percentages of capacity)

Ordinarily railroad car loadings of merchandise and miscellaneous freight show little change between December and January, but figures for the first three weeks of January of this year indicate a rather pronounced decline from the high level reached in December; shipments of bulk freight, however, advanced seasonally. While cotton textile mills maintained a high rate of activity in January, mill sales of cotton goods were reported to have continued below current production.

December data indicated a further rise in the general level of business activity, seasonal factors considered. Although industrial production in general was lower



Daily Average Production of Passenger Automobiles and Trucks (January, 1940 estimated)

than in November, the reduction was smaller than usual for the time of year, and similarly, railroad car loadings of merchandise and miscellaneous freight declined less than in most other years, although the decline in shipments of bulk freight was more pronounced than usual. Retail trade showed a greater than seasonal rise in December, owing mainly to exceptionally large advances in mail order house and chain store sales, while department store sales rose about as usual. Electric power production, which usually reaches the peak of the year in December, increased more than seasonally.

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

	1938	1939		
	Dec.	Oct.	Nov.	Dec.
Industrial Production				
Steel	79r	115	126	129
Passenger cars	73	79	64	86
Motor trucks	72	148	87	91
Bituminous coal	79	98	95	85p
Crude petroleum	88	90	92	98p
Electric power	93	99	99	101p
Cement	64	64	67	73
Cotton consumption	101	111	115	122
Wool consumption r	126	120	122	119p
Shoes	119	106	117	116p
Meat packing	89	97	100	104
Tobacco products	95	92	95	95
Employment				
Employment, manufacturing, U. S.	96	102	105	106p
Employee hours, manufacturing, U. S.	82r	91r	94	94p
Construction				
Residential building contracts	40	44	49	37
Nonresidential building and engineering contracts	112	47	68	98
Primary Distribution				
Car loadings, merchandise and misc.	81	87	90	93
Car loadings, other	78r	98	95	85
Exports	79	86	80	102p
Imports	72	81	85	95p
Distribution to Consumer				
Department store sales, U. S.	87	87	93	93p
Department store sales, 2nd District	80r	80	85	83p
Chain grocery sales	101	106	109	111p
Other chain store sales	100	95	97	109p
Mail order house sales	95	101	97	109p
New passenger car registrations	65	98r	76	72p
*Velocity of Deposits**				
Velocity of demand deposits, outside New York City (1919–25 average=100)	66	57	62	64
Velocity of demand deposits, New York City (1919–25 average=100)	44	29	30	35
*Cost of Living and Wages**				
Cost of living (1913 average = 100)	148	148	148	147p
Wage rates (1926 average = 100)	111	112	112p	

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

Building

Owing to the inclusion in the December total of $117,000,000 for a Tennessee Valley Authority project, the average daily volume of construction contracts during December in the 37 States covered by the F. W. Dodge Corporation survey was somewhat in excess of the November figure and was the largest since December, 1938. Contracts both for residential construction, and for all other types of building, including commercial, industrial, and public purpose buildings, were about one-third lower than in the preceding month, partly in accordance with the usual tendency toward curtailment at this season of the year. Compared with the relatively large volume in December, 1938, aggregate contract awards registered some decline, despite substantial increases in the categories of commercial and industrial building and public works projects. Contracts for public purpose buildings showed a large decline from the high level of December, 1938, when a heavy volume of contracts for this type of building was awarded to meet the dead-line for projects under the Public Works Administration program. Public utility contracts were also considerably below the high level of a year previous and residential contracts were slightly lower.

Reflecting especially gains early in the year, aggregate construction contracts for 1939 were 11 per cent larger than in 1938, and constituted the largest annual total since 1930. The leading factor in this increase was a 35 per cent gain in residential building awards, which were the largest since 1929. Contracts for commercial and industrial building showed an increase of 24 per cent over 1938, and in the public works category a gain of 13 per cent occurred. On the other hand, awards for public purpose buildings were 27 per cent below the 1938 level, and public utility contracts were about unchanged.

In the New York and Northern New Jersey area, the comparisons of construction contracts for 1939 with those awarded in 1938 were less favorable than for the country as a whole. For the year 1939, total construction contracts were 4 per cent below the 1938 level, despite a 21 per cent increase in residential building. Commercial and industrial building contracts were slightly larger than in 1938, as a result of advances in recent months in this type of building activity. In December, contracts in the New York and Northern New Jersey area were 47 per cent below the previous month and 44 per cent lower than in December, 1938. Most of the major construction categories participated in these declines; commercial and industrial building was the only class of construction to show an increase over a year previous.

During the first three weeks of January construction contracts in the 37 States were awarded at a daily rate 39 per cent below the December average, largely because of the inclusion of the aforementioned Tennessee Valley Authority project in the December figures. Compared with the first three weeks of January, 1939, total contracts declined 16 per cent; the effect of substantial decreases in nonresidential building and heavy engineering construction was partially offset by a moderate increase in contracts for residential building.

Foreign Trade

Stimulated by some increase in foreign demands for American goods following the outbreak of war in Europe, and even before the war started, the value of merchandise exports from the United States in the second half of 1939 showed progressively larger increases over the corresponding months of 1938. Exports in December amounted to $368,000,000, which represented a 37 per cent increase over December, 1938 and constituted the largest export total for any month since March, 1930. For the year 1939, however, the total value of exports, $3,177,000,000, was only slightly more than for 1938, as decreases in the first half of 1939 largely offset the substantial gains in the latter part of the year. But with the exception of 1937, the 1939 export total was larger than in any year since 1930.

Throughout most of 1939 the value of imports into this country was materially larger than in 1938, reflecting especially industrial demands for such foreign raw materials as crude rubber, tin, wool, and hides and skins. Total receipts from abroad in December were valued at $247,000,000, a gain of 44 per cent over a year previous. Imports for the calendar year 1939 amounted to $2,318,000,000, an increase of 18 per cent over the 1938 level.

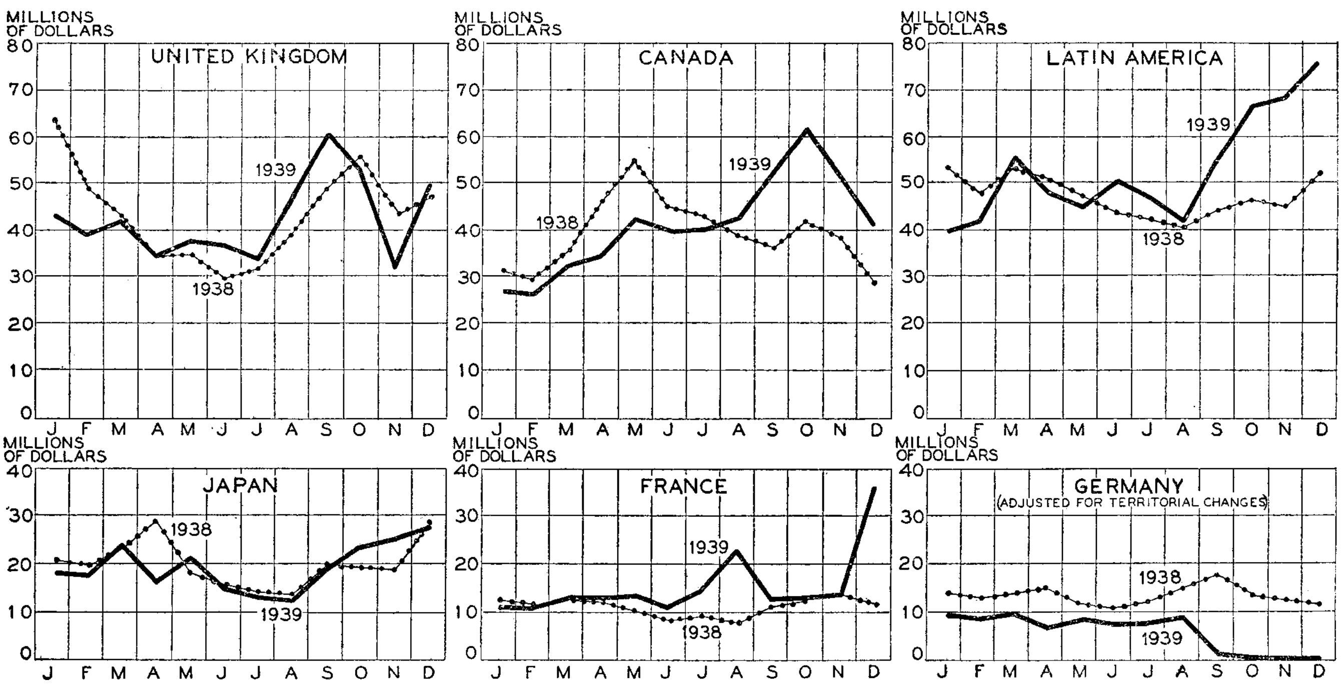
The resulting excess of exports of $859,000,000 in 1939 was substantially smaller than the 1938 export balance—$1,134,000,000—but was larger than in any other year since 1928.

The accompanying diagram shows the monthly values of merchandise exports from the United States during 1938 and 1939 to several countries, or groups of countries, which have been the largest importers of American goods. Exports to all the countries indicated in the diagram, excluding Germany, were 22 per cent higher in the second half of 1939 than in the comparable months of 1938. Exports to France, reflecting in considerable measure accelerated orders for American aircraft, were 70 per cent larger in the last half of 1939 than in the corresponding months of 1938. In the same period an increase of 31 per cent occurred in American exports to Latin American countries, indicating the extent to which these nations have recently drawn upon the United States for supplies, some of which probably were formerly purchased from European countries. Exports to Canada were 27 per cent larger than in the last six months of 1938, and shipments to Japan and to the United Kingdom showed small net advances for the period as a whole, although in several months of 1939 the totals were below the 1938 figures. Shipments to Germany were a notable exception to the rising trend of American exports, dropping from an average of about $13,000,000 a month in 1938 to around $8,000,000 in the first eight months of 1939 and to negligible amounts since September.

Commodity Prices

Wholesale prices of a number of commodities turned downward during January, and in some cases quotations reached the lowest levels since the outbreak of the war or earlier. Moody's Investors Service index of 15 raw products declined 6 per cent and thereby lost all of its December gain.

After rising about three cents during the first few days of the month, wheat quotations declined about 9 cents subsequently and fell below $1.00 a bushel. More favorable weather conditions in the winter wheat area were an important factor in the decline. Cash corn, aided by export sales and light country offerings, advanced 2 cents to 59¾ cents a bushel by the third week in January, a new high level since September, but receded subsequently to show little net change for the month as a whole. Hog quotations moved irregularly lower and reached $5.19 a hundredweight, the lowest price since August, 1934, while steers showed little net change for the month. The average quotation of cotton at ten Southern markets declined 60 points to 10.16 cents a pound by January 23, accompanying weakness in foreign markets and reports of further large sales of 1938 loan cotton. Raw silk quotations in New York declined almost continuously to $2.96 a pound, $1.63 below the ten year peak established December 26; the sharp recession here accompanied falling prices in the primary markets and uncertainty over the Japanese Government's plan to control domestic silk consumption. Hides declined 2¼ cents to 12¾ cents a pound, and rubber receded ½ cent to 18¾ cents a pound, the lowest levels



Merchandise Exports from the United States to Various Countries, 1939 Compared with 1938 (December, 1939 data preliminary)

since early September. Raw sugar in New York, after dipping to 2.79 cents a pound, the lowest point since last March, recovered as refiners offered guarantees against price declines in refined sugar.

In the absence of substantial new buying, prices in the principal metal markets eased further during January. The producers' price of electrolytic copper was reduced to 12 cents a pound, ½ cent below the quotation which had prevailed for more than three months. Zinc was cut ½ cent to 5.50 cents a pound, and lead was reduced ¼ cent to 5.25 cents a pound, the lowest levels since early September. Tin declined another 4 cents during January to 45¼ cents a pound, a new low since last February. Scrap steel receded somewhat further.

Employment and Payrolls

Employment at New York State factories in December showed little change from the November level, although there is often some decrease at this time of year; the expansion of about 2 per cent which occurred in factory payrolls was seasonal in character. This bank's seasonally adjusted index of New York State factory employment has advanced for seven consecutive months, and in December was 12 per cent higher than in May, 1939. In December the average weekly wage of employees in factories reporting to the New York State Department of Labor was the highest for any month since the fall of 1930. Employment was 12 per cent above the level of December, 1938, and payrolls were 18 per cent higher.

Expansion of working forces at metal and machinery plants continued during December. The largest advance in this group occurred in the shipbuilding industry; increased employment was also reported at automobile, airplane, and railroad equipment shops. On the other hand, continued seasonal losses at canning factories more than offset gains in other sections of the food industry, and declines also occurred in the textile and clothing groups.

For the country as a whole an increase in nonagricultural employment of nearly 250,000 workers was reported for December by the Department of Labor, a gain due primarily to the hiring of 390,000 additional workers in the retail trade lines during the Christmas season. There was a small contraseasonal gain in factory employment, but construction, transportation, mining, and the service industries all employed fewer workers than in the previous month. Compared with a year ago, nonagricultural industries were estimated to be employing over 1,200,000 more workers in December, 1939.

The slight increase in factory employment in December was contrary to the usual decline at this time of year, and factory payrolls were 2 per cent greater than in November. Employment in the automobile industry was increased 16 per cent and payrolls 18 per cent, following the resumption of production by a major producer after settlement of a strike. Other industries which reported employment gains were foundries and machine shops, steel mills, and meat packing firms; declines occurred in the canning, lumber, woolen, and radio industries.

Department Store Trade

For the three weeks ended January 20, the daily rate of sales of the reporting department stores in this District showed about the usual decline from the December average, but total sales were about 9½ per cent higher than in the corresponding 1939 period.

In December, total sales of the reporting department stores in this District were about 1½ per cent higher than in December, 1938, and after allowing for one less shopping day in December, 1939, the increase in average daily sales amounted to approximately 5½ per cent, a somewhat smaller year-to-year advance in daily average sales than in November. The daily rate of sales during December, however, showed nearly all of the usual seasonal advance from November, which was a relatively good month for retail trade. December sales of the leading apparel stores in this District were about 3½ per cent higher than in December, 1938, and on an average daily basis the increase was approximately 7½ per cent, as compared with an increase of 5½ per cent in November.

Total sales of the reporting department stores in this District during the year 1939 were 2.2 per cent higher than in 1938, as compared with a decrease of 6.9 per cent from 1937 to 1938. Apparel store sales were 2.1 per cent higher than in 1938, as compared with a decrease of 9.2 per cent between 1937 and 1938.

Stocks of merchandise on hand in the department stores, at retail valuation, were practically the same at the end of December, 1939, as at the end of December, 1938, while apparel store stocks continued lower. Collections during December were at a slightly lower rate than in 1938 in the department stores, but were practically unchanged in the apparel stores.

Locality	Percentage change from a year ago: Net sales, Dec.	Net sales, Jan. to Dec.	Stock on hand end of month	Per cent of accounts outstanding November 30 collected in December: 1938	1939
New York and Brooklyn	—1.0	+1.1	—1.0	42.6	41.9
Buffalo	+9.4	+5.4	—0.3	41.8	44.9
Rochester	+8.3	+5.2	+0.8	49.6	46.0
Syracuse	+9.8	+8.3	+8.7	42.4	41.6
Northern New Jersey	+3.6	+3.4	+1.7	43.5	39.8
Bridgeport	+7.9	+6.8	—1.0	44.6	45.6
Elsewhere	+5.8	+5.3	+3.8	36.0	36.4
Northern New York State	+8.4	—0.2	....	....	....
Southern New York State	+7.0	+5.5	....	....	....
Central New York State	+6.7	+6.6	....	....	....
Hudson River Valley District	+5.5	+5.4	....	....	....
Westchester and Stamford	+1.9	+4.9	....	....	....
Niagara Falls	+7.4	+4.0	....	....	....
All department stores	+1.3	+2.2	—0.1	43.0	41.8
Apparel stores	+3.7	+2.1	—7.7	45.3	45.0

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

	1938 Dec.	1939 Oct.	1939 Nov.	1939 Dec.
Sales, unadjusted	164r	104	115	172
Sales, seasonally adjusted	91r	91	97	95
Stocks, unadjusted	76r	88	93	76
Stocks, seasonally adjusted	77r	77	78	77

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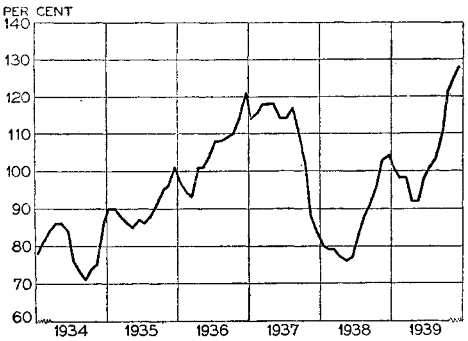
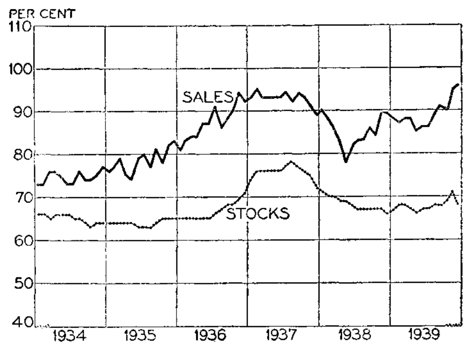
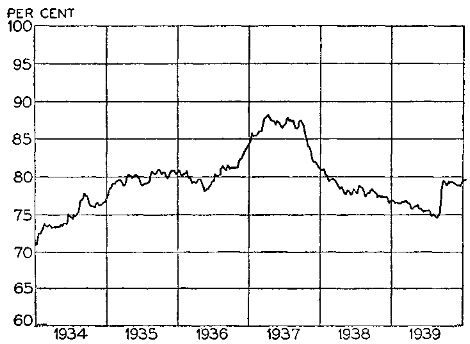


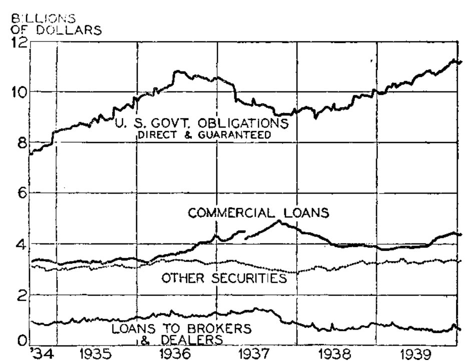
Index of Physical Volume of Industrial Production, Adjusted for Seasonal Variation (1923-25 average = 100 per cent)



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



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



Wednesday Figures for Reporting Member Banks in 101 Leading Cities (Latest figures are for January 10)

Business Conditions in the United States

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

INDUSTRIAL activity, after a rapid rise in recent months, declined less than seasonally in December. In the first half of January activity did not show the usual seasonal increase. Distribution of commodities to consumers was maintained in large volume.

Production

Industrial output decreased in December, but by a smaller amount than is usual at this season, with the consequence that the Board's index, which allows for usual seasonal variations, advanced further from 124 to 128 per cent of the 1923-1925 average. As in other recent months, the rise in the index continued to reflect mainly increased activity in industries producing durable goods. Automobile production rose sharply in December owing to the reopening of plants of one large producer which had been closed for almost two months. Plate glass production also increased. At steel mills activity was maintained near the high level that prevailed in October and November; fourth quarter production of steel ingots was greater than in any other three month period on record. Output of zinc and deliveries of tin continued to increase in December, and lumber production declined less than seasonally.

In the nondurable goods industries, where production had been at high levels throughout the autumn, changes in output in December were largely seasonal in character. At woolen textile mills, however, there was a considerable reduction in activity, and activity at silk mills declined to a low level, reflecting in part continued high prices of raw silk. Output of crude petroleum continued at a high rate in December, while coal production was reduced, following a large volume of output in the two preceding months.

In the first half of January steel ingot production was at a somewhat lower level than in December, while automobile assemblies were maintained at about the same high rate as in the previous month.

Value of construction contracts awarded, as reported by the F. W. Dodge Corporation, increased further in December, owing to the inclusion in the December figures of a large amount for a dam under construction by the Tennessee Valley Authority. Contracts for private building, both residential and nonresidential, declined seasonally.

Employment

According to reports from leading industrial States, factory employment decreased less than seasonally in December and payrolls showed a further advance.

Distribution

Distribution of commodities to consumers increased further in December. Sales at variety stores showed about the usual sharp rise and sales at department stores and mail order houses increased more than seasonally.

Freight car loadings declined by more than the usual seasonal amount from November to December, reflecting chiefly a further reduction in coal shipments and a decrease in loadings of ore, which had been at a high level in the previous month.

Commodity Prices

Prices of wheat, which had advanced sharply early in December and continued at the higher level during the rest of the month, declined considerably in the first half of January. Smaller decreases occurred in some other commodities, including hides, tin, and zinc. Prices of most other basic commodities, such as cotton, wool, lead, and steel scrap, showed little change.

Government Security Market

Prices of United States Government securities continued to advance during December and were steady during the first two weeks of January.

Bank Credit

Total loans and investments of reporting member banks in 101 leading cities declined in the four weeks ended January 10, following an increase during the first half of December. These changes reflected largely a temporary rise and a subsequent decline in loans to security brokers and dealers in connection with the Government's flotation of a new issue of bonds. Total holdings of United States Government obligations at city banks showed little net change during the period.

As a result chiefly of further increases in gold stock as well as the post-holiday return of currency from circulation, excess reserves of member banks increased sharply in the four weeks ended January 10.