

MONTHLY REVIEW

of Credit and Business Conditions

Second Federal Reserve District

Federal Reserve Bank, New York

March 1, 1940

Money Market in February

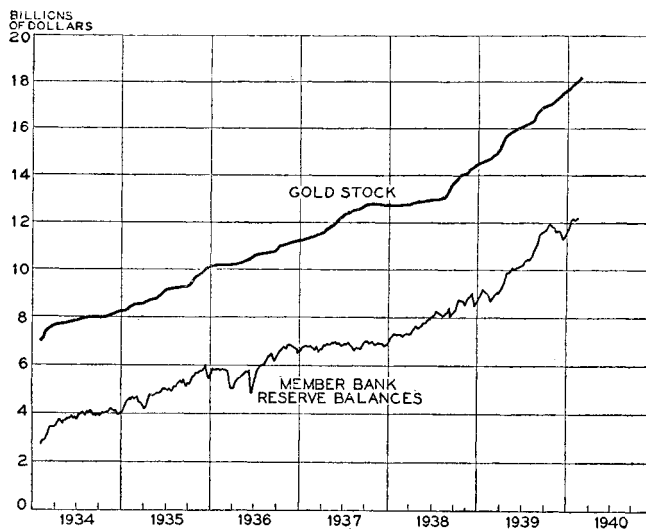
Gold continued to come to this country in substantial amounts during the past month. Weekly reports of the Department of Commerce on gold imports during the first three weeks of February indicated that gold shipments were received in that period from widely scattered sources, from ~~from~~ to South Africa and from Canada to Australia. In the four weeks ended February 28, the increase in the United States gold stock amounted to \$235,000,000, an average weekly gain of \$59,000,000. In spite of the large sales of gold to the Treasury, most of which were for foreign official accounts, foreign central bank balances in the Reserve Banks showed a net reduction of \$26,000,000 during this period, indicating that foreign expenditures here have been exceeding foreign sales of gold to this country.

While some transfers of funds to this country for the account of nonresidents of the countries at war have been reported, it seems fair to assume that a large part of the proceeds of the gold imports and the reduction in foreign central bank balances in this country was actually spent in this country by foreigners, including foreign governments. The figures for the past month, together with similar figures for other recent months, suggest a rate of foreign spending in the United States well above that indicated by the reported excess of merchandise exports over imports. In the past four months foreign spending here appears to have averaged at least \$200,000,000 a month. The disparity between this figure and the average excess of reported valuations of merchandise exports over imports during these months may be attributable in part to the requirement of the Neutrality Act that foreign purchasers of war materials must make full payment for, and acquire title to such materials in advance of their shipment from the United States, partly to advance payments against the cost of production of such materials, and partly to payments made, in some cases, for the expansion of productive facilities required to expedite deliveries.

As the accompanying chart indicates, the continued inflow of gold has been paralleled in a general way by a further rise in the volume of member bank reserves. Temporary disparities have been caused by other factors, however, such as changes in the volume of currency in circulation and fluctuations from week to week in the volume of net expenditures or receipts of the Government. For several weeks late in 1939, for example, the volume of member bank reserves diminished despite an

inflow of gold, because of the seasonal rise in the amount of currency in circulation and Treasury receipts in excess of expenditures. On the other hand, during most of January, 1940, the rise in member bank reserves was considerably more rapid than the increase in the gold stock, as payments for gold purchased by the Treasury were supplemented by the seasonal retirement of currency from circulation and net expenditures by the Government. A temporary interruption of this movement occurred in the last week of January and the first week of February, due chiefly to the collection of social security tax payments, but subsequently member bank reserves again rose rapidly. Consequently, despite an increase in the reserve requirements of New York City member banks, accompanying a rise in their deposits to new high levels, excess reserves of member banks in the latter half of February reached higher levels than ever before. For all member banks, excess reserves on February 28 totaled \$5,690,000,000, and for New York City banks amounted to \$3,300,000,000.

The further increase in idle bank funds apparently was an influence tending to offset the disturbing effects of developments abroad on the market for high grade securities, as, except for some minor irregularities, the prices of such securities remained firm during February. Prices of lower grade bonds and stocks also showed a considerable degree of stability, despite the recession in industrial activity since December. In this case, how-



Gold Stock of the United States and Member Bank Reserve Balances at the Federal Reserve Banks

ever, the stability of the market probably was not closely related to the further growth of idle funds available for investment. It might more accurately be attributed to the discounting of the current recession in industrial activity by the security markets last fall, well in advance of any actual curtailment of production, and perhaps also to the expectation in some quarters that the recession will not be long continued.

Money rates, both for long and short term obligations, remained practically unchanged during February.

Money Rates in New York

	Feb. 28, 1939	Jan. 31, 1940	Feb. 28, 1940
Stock Exchange call loans.....	1	1	1
Stock Exchange 90 day loans.....	*1½	*1½	*1½
Prime commercial paper 4-6 months..	½-¾	½-¾	½-¾
Bills—90 day undorsed.....	¾	¾	¾
Average yield on Treasury notes (3-5 years).....	0.57	0.50	0.44
Average yield on Treasury bonds (not callable within 12 years).....	2.39	2.33	2.33
Average rate on latest Treasury bill sale, 91 day issue.....	0.004	0.004	0.005
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 all weekly reporting member banks in 101 principal cities throughout the country showed only a small net increase in the four weeks ended February 21, as a moderate increase in New York City was partly offset by a slight decline elsewhere. In the reporting New York City banks, the amount of commercial and industrial loans again declined slightly, and loans on securities showed a further small reduction, but there were small increases in other loans and a further expansion of investment portfolios. The principal increases in investments during the four week period were in holdings of United States Government notes and bonds which rose \$31,000,000, in United States Government guaranteed securities which increased \$44,000,000, and in "other" securities which increased \$79,000,000. The latter increase which brought such holdings to a higher level than ever before, apparently was due chiefly to purchases of the securities of municipalities and other governmental agencies, such as the Triborough Bridge Authority. Holdings of Treasury bills were reduced \$81,000,000 further.

In 100 other principal cities, commercial and industrial loans increased slightly in the four weeks ended February 21, but total investments were reduced by \$40,000,000. Holdings of Treasury bills increased slightly, but there were further small declines in holdings of Treasury bonds and notes, and a reduction of \$31,000,000 in holdings of Government guaranteed securities.

Demand deposits of the New York City banks, exclusive of interbank deposits, rose \$164,000,000 further during the four week period, and again reached higher levels than ever before. Banks in the 100 other cities covered by the reports, however, showed a net reduction of \$71,000,000 in demand deposits during the same period.

GOVERNMENT SECURITIES

The Government security market was quiet but rather sensitive during February, reflecting in part continued

apprehension over possible foreign developments in the spring, and in part, later in the month, the approach of the quarterly financing period of the Treasury. With respect to long term Treasury bonds, the average price advanced ¼ point on the opening day of the month and then eased about ⅛ point, after which it rose another ¼ point to reach the month's high on the 13th. On that date, however, the average price remained about ½ point below the January high. In the second half of the month, prices of long term Government's eased gradually, but remained slightly above the end of January level. Treasury note prices also firmed in the opening two days of February, when the average yield on 3 to 5 year issues declined to 0.46 per cent, as compared with the January low of 0.43 per cent, and in the subsequent part of February showed little change.

On February 14, the Treasury issued a call for redemption on June 15, 1940, of the \$353,000,000 of 3¾ per cent Treasury bonds of 1940-43 outstanding; at the same time the Treasury indicated that holders of these securities might, prior to the redemption date, be offered the privilege of exchanging them for new interest bearing securities of the Treasury.

Treasury bill financing during February included the sale of four weekly issues of \$100,000,000 each, which replaced similar maturities. For the issue dated February 7, the accepted bids were at prices ranging from slightly above par down to 99.999, the average price being only fractionally below par, but for the issues of the three succeeding weeks, the average prices were such as to produce average yields of 0.005 to 0.006 per cent, as compared with 0.004 per cent on the last issue of January.

COMMERCIAL PAPER AND BILLS

Although during February the prevailing level of rates for average grade prime four to six month commercial paper remained in the ½-¾ per cent range which has been in effect since the latter part of November, the tendency toward new low levels became somewhat more evident, in that a further increase was reported in the amount of choice paper sold at ¾ per cent. Sales of paper at ½ per cent still constituted the largest part of the aggregate amount of business consummated. Bank investment demand for notes of commercial concerns again, to a considerable extent, went unfilled, owing to the continued inability of dealers to acquire adequate supplies of paper. The small supply, however, remained representative of a rather wide variety of business enterprise. Reports to this bank by commercial paper concerns show that \$219,400,000 of paper was outstanding at the end of January, the largest amount since the \$225,300,000 total for June, 1938. A month earlier outstandings were \$209,900,000 and a year ago the amount was \$195,200,000.

To an even greater degree than in commercial paper, the conditions of limited supply and active demand continued to characterize the market for bankers acceptances during February. Dealers' quoted rates remained unchanged. On January 31 the volume of bills outstanding totaled \$229,000,000, a decrease, usual in January, of about \$4,000,000 from the December total. This decrease resulted from slight declines in the several classifications

shown in the accompanying tabulation. In comparison with a year ago the January volume was \$26,000,000 lower, reflecting a drop of \$32,000,000 in bills based on goods stored in or shipped between foreign countries and a decline of \$19,000,000 in export bills, partly offset by an increase of \$14,000,000 in bills drawn to furnish dollar exchange and an increase of nearly equal amount in import bills.

(Millions of dollars)

Type of acceptance	Jan. 31, 1939	Dec. 30, 1939	Jan. 31, 1940
Import.....	88	102	101
Export.....	57	39	38
Domestic shipment.....	11	10	8
Domestic warehouse credit.....	42	44	43
Dollar exchange.....	2	16	16
Based on goods stored in or shipped between foreign countries.....	55	22	23
Total.....	255	233	229

Security Markets

Stock prices continued to fluctuate within narrow limits in February and the turnover of shares on the New York Stock Exchange remained extremely light. In the first week of the month, the general average of stock prices advanced about 3 per cent, but did not equal the quotations of the first part of January, and subsequently prices eased irregularly, and as the month closed were only slightly higher than at the end of January. The announcement reaching this market on February 19, that residents of the United Kingdom had been ordered to deliver to the British Treasury their holdings of 60 specified common and preferred shares of American corporations, in order to insure orderly liquidation of these securities in American markets, had no appreciable effect on either prices or activity on the New York Stock Exchange.

Prices of medium and lower grade bonds advanced slightly in the first half of February, during which period public utility bonds of this grade touched higher quotations than in January. Industrial bonds rose to about the January highs, while railroad bonds of this grade failed to advance as high as in the first part of January. In the latter part of February there was some easing in the less high grade bonds, but average prices, as computed by Moody's Investors Service, closed the month higher than at the end of January, particularly in the case of Baa public utility bonds.

High grade corporation bonds advanced further during the first half of February, and Moody's average price of Aaa bonds reached a new high. In the second half of the month, there was a moderate recession from the high reached on the 15th. High grade municipal issues recovered somewhat in the first half of February, following the decline in the second half of January, but later in February these issues declined again to below the level prevailing at the end of January. According to the Standard Statistics Company, the average yield on high grade municipal bonds stood at 2.65 per cent on February 28, as compared with the recent low of 2.49 per cent, reached in the first part of January.

New Financing

Two exceptionally large flotations, \$105,000,000 Bethlehem Steel Corporation refunding bonds and debentures and \$98,500,000 Triborough Bridge Authority revenue bonds, raised February's aggregate of corporate and municipal new security issues to \$430,000,000, an amount which exceeds the total of any month since June, 1939. The Bethlehem Steel issues represented the largest single piece of industrial financing to have been undertaken since the passage of the Securities Act of 1933, and the Triborough Bridge offering was reported as the largest single amount of revenue bonds ever to have been issued by a local governmental body. Both of these issues were publicly offered, the first on February 29, and the second on February 14.

Of the \$255,000,000 total of corporate issues, \$42,000,000, the greatest amount since July, 1939, was for the purpose of raising new capital. Details of the larger issues publicly offered during the past month are as follows:

- \$105,000,000 Bethlehem Steel Corporation refunding securities composed of \$30,000,000 of 20 year 3 per cent consolidated mortgage bonds, priced at 98 to yield about 3.14 per cent; \$40,000,000 of 25 year 3¼ per cent consolidated mortgage bonds, priced at 100; \$35,000,000 of 0.50 per cent to 2.60 per cent serial debentures maturing from 1941 to 1950, priced at 100
- 26,000,000 Kentucky Utilities Company securities composed of \$20,000,000 of 4 per cent first mortgage bonds of 1970, priced at 102 to yield about 3.89 per cent and \$6,000,000 of 4½ per cent sinking fund mortgage bonds of 1955, priced at 101½ to yield about 4.36 per cent, all for refunding purposes
- 25,000,000 Dayton Power and Light Company 3 per cent first mortgage bonds of 1970, priced at 104 to yield 2.801 per cent; \$19,700,000 for refunding purposes
- 16,000,000 Southwestern Gas and Electric Company 3¼ per cent first mortgage bonds of 1970, priced at 103 to yield 3.10 per cent, for refunding purposes; also 75,000 shares of 5 per cent preferred stock offered to holders of outstanding 7 per cent preferred stock
- 10,000,000 Skelly Oil Company 3 per cent debentures of 1950, priced at 100, for refunding purposes
- 98,500,000 Triborough Bridge Authority revenue bonds composed of \$50,000,000 of 3¼ per cent sinking fund bonds of 1980, priced at 102¼ to yield 3.15 per cent; \$8,500,000 of 2¾ per cent serial bonds of 1945-52, priced to yield from 1.50 per cent to 2.50 per cent; and \$40,000,000 of 3 per cent serial bonds of 1953-75, priced to yield from 2.55 to 3.00 per cent up to 1970 maturities and at 99½ for maturities from 1971 to 1975; \$81,000,000 for refunding purposes
- 33,000,000 Port of New York Authority 3 per cent general and refunding bonds of 1976 awarded at a net interest cost of 3.022 per cent and reoffered at 100¼ to yield 2.989 per cent.

An interesting feature of the Triborough Bridge Authority financing is the fact that approximately \$81,000,000 of the proceeds of the sale will be used to refund at the present time (by payment of interest to the call date plus the call price) \$71,000,000 of outstanding bonds callable at 105 on April 1, 1942. The first long term bonds of local housing authorities, aggregating \$1,700,000 for four cities, were awarded on February 15

and the bonds of some of the authorities were reoffered on February 20. The securities carried various coupon rates from 1½ per cent to 2¾ per cent, maturities from 1940 to 1966, and were reoffered to the public at prices to yield from 0.20 per cent to 2.65 per cent according to maturity. One large private sale of securities was announced during the past month, that of \$30,000,000 Commercial Investment Trust Corporation notes to two insurance companies. These consisted of \$20,000,000 of 2 per cent notes due in 1947 and \$10,000,000 of 1 per cent notes due in 1943; the proceeds will be used to finance expansion of the company's operations.

Temporary financing accounted for an additional \$135,000,000 during the month and included \$75,000,000 of four month 0.15 per cent notes of the State of New York; also \$23,450,000 of 0.75 per cent Federal Intermediate Credit Bank consolidated debentures maturing in December, 1940, which were sold at prices to yield 0.30 per cent per annum.

Central Bank Rate Changes

On February 17 the rediscount rate of the Bank of Latvia, applicable to banks, was raised from 4½ to 5 per cent, and the rate for other borrowers was advanced from 5 to 5½ per cent. The lower rates had been in effect since January 1, 1939.

Business Profits

The sharp rise in industrial production which followed the outbreak of hostilities in Europe last September was reflected in a very large increase in profits of several groups of industrial corporations during the last quarter of 1939. A compilation of the quarterly profits of 221 industrial and mercantile corporations whose reports have been issued by this time indicates that aggregate fourth quarter net profits of this group of companies were nearly double those of the third quarter of 1939 and some 60 per cent larger than in the fourth quarter of 1938. On the basis of the profits reported by this group of companies it appears that seasonally adjusted profits of leading companies rose in the fourth quarter of the year to at least the same general level as prevailed in the first nine months of 1937, a level which was the highest since the third quarter of 1929. However, it should be emphasized that the reports from which this conclusion is drawn are, in general, those of the larger corporations of the country, and include a large proportion of companies producing durable goods, whose output rose more rapidly in the fourth quarter of 1939 than the output of nondurable goods. Profits reports for all corporations in the country, were they available, undoubtedly would show a less favorable comparison than is indicated for these principal corporations.

All of the groups of companies listed in the following table showed increases in profits between the third and fourth quarters of 1939, and some of the principal groups of companies, such as the automobile and steel companies, reported profits which were considerably above seasonal expectations for the fourth quarter. As compared with the fourth quarter of 1938, the largest percentage increases were reported in profits of the steel,

railroad equipment, paper and paper products, and textile groups of companies.

For the entire year 1939, aggregate net profits of these 221 companies were nearly twice the total reported by these companies for 1938. The indications are, however, that profits of principal companies for 1939 remained about one-fourth less than for the full year 1937. This bank's tabulation of annual business profits, covering a much larger number of companies, will appear in the April 1 Review.

(Net profits in millions of dollars)

Corporation group	No. of cos.	1938		1939		
		Fourth quarter	Year	Third quarter	Fourth quarter	Year
Automobiles and automobile parts . . .	31	77.5	108.2	17.9	88.1	242.4
Building materials	14	6.6	15.0	8.3	11.4	29.2
Chemicals and drugs	22	19.7	70.8	27.8	32.4	108.1
Electrical equipment	11	4.9	16.4	5.7	8.3	26.1
Food and food products	24	25.3	83.0	21.1	23.6	83.8
Machinery and tools	19	3.6	13.0	5.2	6.6	19.8
Mining	22	5.6	20.0	8.6	10.4	30.1
Paper and paper products	8	0.5	3.0	1.4	2.8	5.6
Petroleum	7	4.2	24.1	8.1	9.5	24.4
Railroad equipment	7	0.9	-1.8	1.6	4.3	7.5
Steel	19	13.3	-6.0	28.2	70.9	119.0
Stores	9	6.3	7.5	2.7	6.4	11.8
Textiles	7	2.0	4.6	2.4	4.6	11.1
Miscellaneous	21	7.4	23.5	8.8	9.8	35.0
Total, 14 groups	221	177.8	381.3	147.8	289.1	753.9

—Deficit.

Foreign Exchanges

One of the outstanding developments in the foreign exchange markets during February was an accelerated flight of capital from Sweden, which culminated in the introduction of official exchange control in Sweden on February 25. The new regulations, which strengthened the informal control over capital transfers applied by Swedish banks since the middle of December, invested the Riksbank and authorized banks with a monopoly of exchange transactions and provided for the control of foreign exchange. Foreign exchange will be made available only for approved transactions, and the export and import of bank notes and securities are prohibited. The new restrictions do not affect Sweden's clearing agreements with other countries. Despite the recent pressure, the Swedish krona rate was maintained throughout the past month near the level of \$0.2382.

Trading in the other neutral European exchanges was featured by irregular fluctuations in the belga and the guilder. The Belgian currency, which had risen to a four month high of \$0.1698½ on January 29, receded to as low as \$0.1681½ in the middle of February. Subsequently, however, the belga showed some renewed firmness, ending February at \$0.1687½. After opening the month at \$0.5309, the Netherlands currency rose to \$0.5326 during the first week. A reaction then occurred, but the rate turned upward again in the latter part of the month, accompanying the offering of a new Netherlands Government issue, which was oversubscribed. At the end of the month the guilder was quoted at \$0.5319½. Swiss exchange, meanwhile, continued steady at about the rate which has prevailed since the latter part of November.

With respect to the currencies of the allied countries,

a weaker tendency was shown during the first half of the past month. The pound-dollar rate, which had advanced to as high as \$4.00 toward the end of January, declined irregularly to reach a low point of \$3.94 $\frac{1}{4}$ on February 15. This reaction was reportedly due in large part to relatively heavy European and South American offerings of the British currency, presumably induced by rumors of an impending tightening of the British exchange regulations. During the second half of February, however, quotations for the pound sterling outside the London official market held fairly stable at about \$3.95 $\frac{1}{2}$ until the end of February when the rate declined to \$4.94 $\frac{3}{4}$. In the forward market, the discount on three month sterling deliveries narrowed during the month from the equivalent of 3 $\frac{7}{8}$ per cent per annum to about 3 $\frac{1}{4}$ per cent. The New York rate for French francs continued to keep more or less in line with sterling, in view of the official cross rate of 176 $\frac{1}{2}$ francs to the pound. Toward the end of February the franc was quoted in this market at \$0.0223 $\frac{3}{4}$, as compared with the high of \$0.0226 $\frac{3}{4}$ reached about a month earlier.

The Canadian dollar showed some weakness against United States currency during February, its discount widening from 12 $\frac{5}{16}$ per cent on January 31 to 13 $\frac{3}{4}$ per cent near the end of February, the largest discount in about three months. Of the Latin American currencies, the "free" rate for the Argentine peso, which improved noticeably in January, appreciated further in early February, reaching \$0.2347 on February 8, as compared with about \$0.2250 at the beginning of January. Despite adverse pressure, reported to have been occasioned largely by discussion in this country of a proposal to suspend the foreign silver purchase provisions of the Silver Purchase Act, the dollar rate for the Mexican peso was maintained at about \$0.1672 throughout the past month.

Gold Movement

The volume of gold imports into the United States declined somewhat further during February, but continued to be very substantial. In addition, the amount of gold held under earmark for foreign account at the Federal Reserve Bank of New York decreased about \$35,000,000 further during the month, following a decrease of \$40,000,000 in January. Chiefly as a result of these factors, the gold stock of the United States increased about \$245,000,000 in February, after a gain of \$287,000,000 in January. The amount of gold held under earmark for foreign account at the Federal Reserve Bank of New York at the end of the month amounted to about \$1,085,000,000.

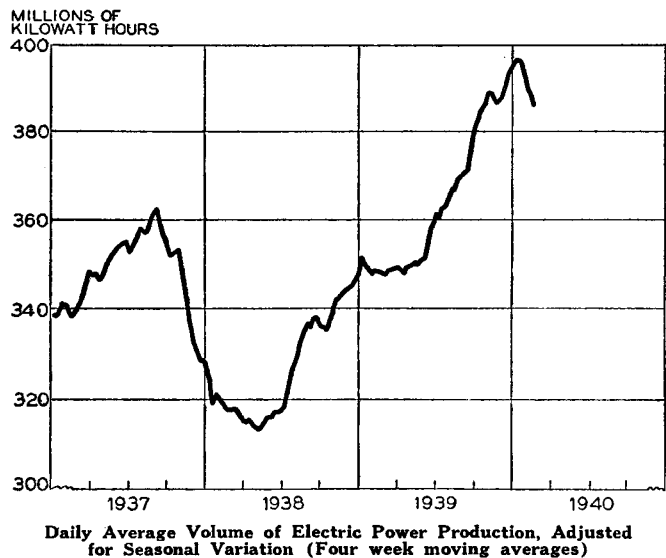
As reported by the Department of Commerce, gold imports into the United States during the four weeks ended February 21 totaled \$216,900,000, of which \$43,400,000 came from Canada, \$32,700,000 from Sweden, \$25,500,000 from the Netherlands, \$21,300,000 from the Union of South Africa, \$20,300,000 from England, \$19,100,000 from Norway, \$14,300,000 from India, \$10,500,000 from Switzerland, \$6,400,000 from Australia, \$5,600,000 from Russia, \$4,900,000 from Japan, \$2,800,000 from Italy, \$1,400,000 from Hong Kong, \$1,400,000 from the Philippines, \$1,000,000 from Belgium, and \$500,000 from New Zealand.

Production and Trade

Available weekly data indicate that there was a further decline in business activity in February. Steel mill operations continued to slacken, although the rate of decline was less marked during the latter half of the month. For February as a whole, ingot production appears to have averaged slightly above two-thirds of theoretical capacity, as compared with 83 per cent of capacity in January and 93 per cent in November. New orders booked by steel mills continued to lag behind current output, although trade reports indicated an increase in export business. Cotton textile mill activity appears to have been generally well maintained in February, despite the fact that sales were again reported below output. Automobile production declined seasonally. Incomplete data on department store sales in the New York District indicate a decrease from the January level, although the rate of sales is usually greater in February than in January.

Indexes of electric power production and railway freight traffic have also reflected the recent decline in activity, although the decline in the former apparently has been less in proportion to the rise last year than in indexes of industrial production. As shown in the accompanying diagram, electric power production declined in January and February sufficiently, after seasonal adjustment, to cancel approximately one-fourth of the June-December rise.

The general level of business activity declined in January, following the substantial advance which had occurred during the last seven months of 1939. Retail trade, as is usual, contracted sharply, and available monthly data indicate that the drop was larger than in many other years. Railroad car loadings of merchandise and miscellaneous freight showed a rather pronounced decline from the December level, but shipments of bulk freight increased. The volume of industrial production was considerably reduced, on a seasonally adjusted basis, owing in substantial part to curtailment of output or absence of expansion in some important lines where increases usually occur between December and January.



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

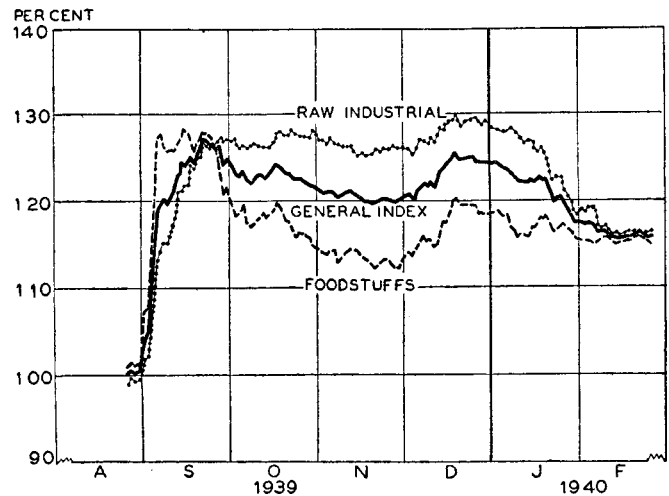
	1939			1940
	Jan.	Nov.	Dec.	Jan.
Industrial Production				
Steel.....	69	126	129	107
Passenger cars.....	73	64	86	89
Motor trucks.....	78	87	91	83
Bituminous coal.....	78 _r	95	85	97 _p
Crude petroleum.....	88	92	94	91 _p
Electric power r.....	91	98	99 _p	99 _p
Cement.....	57	67	73	..
Cotton consumption.....	95 _r	115	122	110
Wool consumption r.....	104	122	121	104 _p
Shoes.....	116	117	116 _p	108 _p
Meat packing.....	88	100	104	103
Tobacco products.....	87	95	95	85
Employment				
Employment, manufacturing, U. S.....	96	105	106	105 _p
Employee hours, manufacturing, U. S.....	81	94	94	91 _p
Construction				
Residential building contracts.....	47	49	37	42
Nonresidential building and engineering contracts.....	69	68	98	44
Primary Distribution				
Car loadings, merchandise and misc.....	79	90	93	86
Car loadings, other.....	74 _r	95	85	89
Exports.....	71	80	98	109 _p
Imports.....	74	85	94	89 _p
Distribution to Consumer				
Department store sales, U. S.....	86	93	93 _p	89 _p
Department store sales, 2nd District ..	76	85	83 _p	82 _p
Chain grocery sales r.....	93	101	101	98 _p
Other chain store sales.....	97	97	109 _p	97 _p
Mail order house sales.....	91	96 _r	108 _p	97 _p
New passenger car registrations.....	70	76	73	..
Velocity of Deposits*				
Velocity of demand deposits, outside New York City (1919-25 average = 100)...	61	62	64	59
Velocity of demand deposits, New York City (1919-25 average = 100).....	36	30	35	27
Cost of Living and Wages*				
Cost of living (1913 average=100).....	147	148	147	147 _p
Wage rates (1926 average=100).....	111	112	114 _p	..

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

Commodity Prices

Commodity price movements during February were irregular, but in most cases of moderate proportions. Nonferrous metal prices, which had been tending downwards, strengthened toward the end of the month, although the general level of all wholesale prices declined slightly further.

The course of political developments abroad apparently exerted an important influence on wheat markets in this country during February. Cash wheat at Kansas City rose as high as \$1.05½ a bushel on February 21, 7¾ cents above the level at the end of January, though the gain for the month as a whole was reduced by a subsequent reaction. Other factors in the rise included sizable British purchases of Canadian wheat, reports of extensive damage to European crops by cold weather, and an estimate that the current Argentine crop would be the smallest since 1917. Corn prices moved within relatively narrow limits around 58 cents a bushel, as the increased quantity of the grain being sealed under Government loan tended to offset the threat of competition from the large new Argentine crop. Although the export subsidy was terminated at the end of January, the average price of cotton at ten Southern markets advanced ½ cent to 10¾ cents a pound. On the other hand,



Daily Index of Prices of 28 Basic Commodities, Computed by Bureau of Labor Statistics (August, 1939=100 per cent)

domestic wool prices eased several cents further, and silk declined 21 cents to \$2.90 a pound by the middle of February, the lowest level since early September. Rubber receded ⅝ cent to 18¼ cents a pound following the announcement by the International Rubber Regulation Committee that the export quota for the second quarter of 1940 would remain unchanged at 80 per cent of basic quotas. Steers, however, rose sharply to more than \$10.00 a hundredweight for the first time since September, and raw sugar in New York was quoted somewhat higher as the Government reduced the 1940 domestic sugar consumption estimate on which import quota allotments are based.

Metal markets, which had continued to decline during the first part of February, became firmer subsequently. The producers' price of electrolytic copper, which had been cut ¾ cent a pound in the first week of February, was increased ¼ cent to 11½ cents a pound on February 20, accompanying reports of the largest sales of the metal since September. The International Tin Committee reduced export quotas from 120 per cent to 80 per cent of standard, and the price of the metal in this country rose 2 cents to 47¾ cents a pound. The price of zinc was advanced ¼ cent to 5¾ cents a pound, and lead recovered a ¼ cent decline which had occurred early in the month. Scrap steel quotations appeared to level off in the final week of the month.

The accompanying diagram shows the Bureau of Labor Statistics' new daily index of spot market prices of 28 basic commodities, and two of its subgroups—foodstuffs and raw industrial commodities. The index begins August 28, 1939, and hence covers the entire war period, including the abrupt rise in September, a decline and recovery in the final quarter of 1939, and a renewed decline in the first five or six weeks of this year, accompanying the downturn in business activity. In the last three weeks of February the three curves tended to level out, in each case at about 15 per cent above the August average. The daily index is considerably more sensitive than the Bureau's monthly index of 784 wholesale prices, which is estimated for February at only 5 per cent above its prewar level.

Building

During January the daily average rate of construction contract awards in the 37 States included in the F. W. Dodge Corporation survey was 42 per cent below the high level of December and 25 per cent lower than a year ago. The sharp decline from the preceding month was principally the result of a 67 per cent decrease in the heavy engineering classification, which in December included a large Tennessee Valley Authority project. Contracts for residential building registered a reduction, but contracts for public purpose building were slightly above the level of the previous month. The latter type of construction, however, showed a 64 per cent decrease from the relatively large volume in January of last year. Contracts for heavy engineering projects were 27 per cent smaller than in January, 1939.

In the New York and Northern New Jersey area the average daily rate of contract awards was only 5 per cent lower than in December, but as compared with January of last year, the reduction in the volume of total construction contracts in this area amounted to 51 per cent. All the major construction categories participated in the decline from a year ago, with the exception of commercial and industrial building, which, continuing the rising tendency of recent months, was 19 per cent larger than in January, 1939. Residential building contracts were 7 per cent less than a year previous.

In January, contracts for apartment house construction constituted a larger proportion of all residential contracts than a year ago, both in the New York area and in other areas. The relative growth in apartment house construction is indicated in the accompanying diagram, which shows that, for the year 1939, apartment house construction in the New York area accounted for 54 per cent of all residential construction, as compared with only 40 per cent in 1935, and that in other areas 1939 apartment house construction amounted to 17 per cent of the total, as compared with 12 per cent in 1935. Meanwhile, in New York the proportion of contracts for one family houses (for sale or rent) has remained approximately the same, and has increased somewhat in

other sections, but the proportion of contracts for owner occupied one family houses has been declining, both in New York and elsewhere.

During the first three weeks of February, total construction contracts in the 37 States were awarded at approximately the same daily average rate as in January; the effect of a substantial increase in the category of nonresidential building about offset decreases in awards for heavy engineering projects and for residential building. Compared with the corresponding period of February, 1939, total contract awards were 14 per cent lower, owing chiefly to a large reduction in the heavy engineering classification.

Employment and Payrolls

Factories reporting to the New York State Department of Labor in January showed decreases of 2 per cent in employment and 3½ per cent in payrolls. The decline in employment was of about the usual seasonal magnitude, but the reduction in payrolls appears to have been slightly larger than usual. Compared with January, 1939, factory employment in New York State was 12 per cent higher and payrolls were 16 per cent greater.

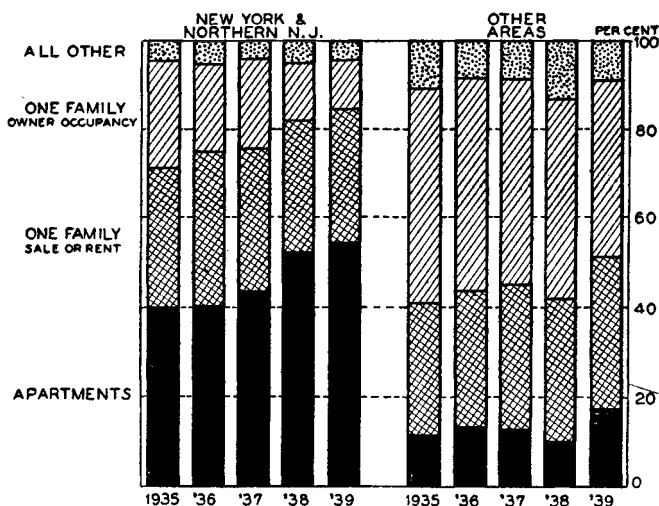
All of the major industrial groups reported declines for the month in both employment and payrolls; the chief declines occurred in textile mills, in fur, leather, and rubber goods plants, and in the stone, clay, and glass industry. However, in several subgroups increased working forces were reported; this was true of the millinery, men's clothing, and automobile and airplane industries.

For the country as a whole, the United States Department of Labor reported a decline in nonagricultural employment of more than 1,000,000 workers between the middle of December and the middle of January—somewhat more than the usual seasonal reduction. About half of the reduction from December to January occurred in retail trade, where approximately 600,000 workers were laid off after the close of the holiday trade. In addition there was a decrease of 200,000 workers in factory employment and about 200,000 in construction work. However, there were estimated to be about 1,100,000 more nonagricultural workers employed in January, 1940, than there were a year ago.

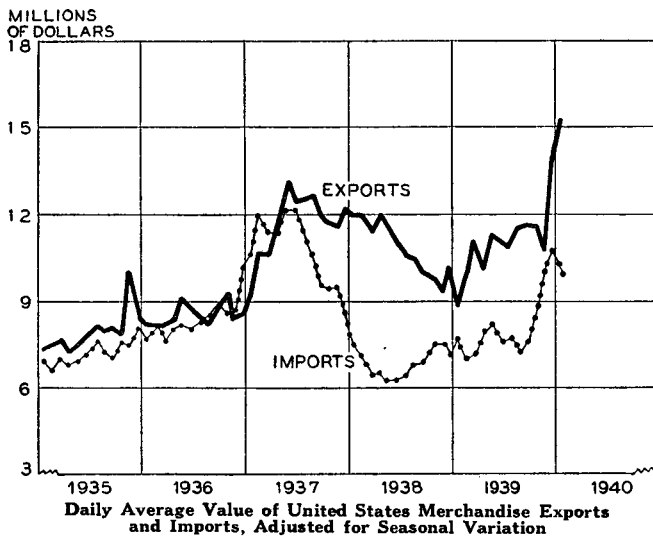
United States factories reported declines of 2½ per cent in employment and 5½ per cent in payrolls, which are somewhat larger than the usual decreases experienced in January. The durable and nondurable goods categories shared about equally in the decline, and, with the exception of the transportation equipment and leather goods groups, all major industrial classifications employed fewer workers in January than in December. Compared with January, 1939, however, total factory employment was 10 per cent higher and payrolls were 17 per cent greater.

Foreign Trade

During January merchandise exports from the United States were valued at \$369,000,000, an amount which was slightly larger than the December figure, contrary to the usual tendency for exports to decline substantially at this time of year. As compared with the low level of a year ago, exports in January of this year were 73 per cent higher. Imports, with a value of



Percentage Distribution of Principal Types of Residential Building Contracts in the New York and Northern New Jersey Area, and in Other Areas from which Reports are Collected by the F. W. Dodge Corporation



\$242,000,000, were somewhat smaller than in the preceding month, but showed an increase of 36 per cent over a year ago. The resulting \$127,000,000 excess of exports in January of this year was larger than in any month since October, 1929.

As is indicated in the accompanying diagram, both exports and imports of this country have increased approximately 30 per cent, on a seasonally adjusted basis, since last September. The increase has carried exports to a considerably higher point than was reached in 1937, while imports have not yet reached the 1937 peak.

The following table shows the percentage changes which have occurred between January, 1939 and January, 1940 in the value of the 10 export classifications of greatest importance (during 1939) in this country's foreign trade, and in the values of the most important imports. Reflecting heavy European demand, exports of aircraft from the United States in January were more than five times as large as in January, 1939, and the value of exports of raw cotton and semifinished copper showed increases of 300 per cent and 225 per cent, respectively, reflecting not only large increases in quantity, but also higher prices; a year ago, raw cotton exports were at an extremely low level. In addition, exports of metal working machinery were more than double those of a year ago, and lubricating oil exports

Exports		Imports	
Individual items	Percentage change in value Jan., 1940 compared with Jan., 1939	Individual items	Percentage change in value Jan., 1940 compared with Jan., 1939
Aircraft.....	+420	Furs, undressed..	+213
Cotton, unmanufactured.....	+300	Wool.....	+155
Copper.....	+225	Sugar, cane.....	+128
Metalworking machinery.....	+117	Rubber, crude.....	+115
Lubricating oil.....	+ 82	Tin.....	+113
Coal.....	+ 39	Silk, raw.....	+ 86
Automobiles, parts, and accessories.....	+ 11	Woodpulp.....	+ 53
Crude petroleum.....	0	Newsprint paper.....	+ 11
Gasoline, and other motor fuel.....	- 13	Hides and skins.....	+ 3
Tobacco.....	- 28	Coffee.....	- 16
Total 10 exports.....	+108	Total 10 imports.....	+ 64
All exports.....	+ 73	All imports.....	+ 36

showed a large increase. On the other hand, the exports of tobacco and gasoline were smaller in value than a year ago. Among the imports, the largest percentage gain occurred in receipts of furs, but there were also large increases in the value of wool, sugar, rubber, and tin imports. Imports of silk were slightly smaller in quantity than a year ago, but, owing to the price rise, were 86 per cent larger in value than in January, 1939. Receipts of coffee showed a moderate decrease from a year ago, in quantity as well as in value.

Department Store Trade

For the three weeks ended February 17, total sales of the reporting department stores in this District fell slightly below those of the corresponding period of 1939, apparently owing in part to bad weather conditions in the third week, and were also below the January level, although the rate of sales is usually somewhat greater in February than in January.

Total January sales of the reporting department stores in this District were about 14½ per cent higher than last year, but about one-third of the increase was due to one more business day than in January, 1939. As compared with the preceding month, when sales reached their seasonal peak, about the usual decline was shown. January sales of the leading apparel stores in this District were 12.2 per cent higher than last year, and on an average daily basis the year-to-year increase was larger than in the previous two months.

Stocks of merchandise on hand in the department stores, at retail valuation, were about 1½ per cent higher at the end of January than a year ago, and apparel store stocks were about 8½ per cent lower.

Locality	Percentage change January, 1940 compared with January, 1939		Per cent of accounts outstanding December 31 collected in January	
	Net sales	Stock on hand end of month	1939	1940
New York and Brooklyn.....	+14.9	+0.2	50.4	50.7
Buffalo.....	+ 7.9	+3.4	39.4	38.4
Rochester.....	+13.4	+2.0	55.8	54.9
Syracuse.....	+19.0	+4.3	37.7	39.8
Northern New Jersey.....	+15.8	+5.8	41.4	38.4
Bridgeport.....	+16.7	-2.9	40.9	43.1
Elsewhere.....	+11.9	+5.9	35.9	37.0
Northern New York State.....	+10.7	.....	.....	.....
Southern New York State.....	+15.9	.....	.....	.....
Central New York State.....	+15.5	.....	.....	.....
Hudson River Valley District..	+14.9	.....	.....	.....
Westchester and Stamford.....	- 2.5	.....	.....	.....
Niagara Falls.....	+11.9	.....	.....	.....
All department stores.....	+14.6	+1.4	46.8	46.1
Apparel stores.....	+12.2	-8.6	49.6	50.1

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

	1939			1940
	Jan.	Nov.	Dec.	Jan.
Sales, unadjusted.....	68	115	172	74
Sales, seasonally adjusted.....	86	97	95	94
Stocks, unadjusted.....	68r	93	76	69
Stocks, adjusted.....	76r	78	77	77

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