

# MONTHLY REVIEW

## of Credit and Business Conditions

### Second Federal Reserve District

Federal Reserve Bank, New York

May 1, 1940

#### Money Market in April

The invasion of Denmark and Norway by Germany and news reports suggesting possible involvement of other countries in the war had an unsettling effect on the security markets in April but on the whole price movements were surprisingly moderate.

Several factors apparently combined to counteract or limit the depressing influence of foreign developments on security prices. Previous selling of Government and other high grade bonds, induced by events abroad on earlier occasions and by fears of the effects of further developments in the war, has probably tended to increase the proportion of securities in strong hands and to limit the volume of liquidation more recently. Furthermore, the experience of last autumn, when the sharpest fall in bond prices in several years was followed by full recovery, despite the war, has probably deterred much selling that might otherwise have been induced by the war developments. The underlying factor, however, which has almost continuously been opposing a recession in bond prices is the continued accumulation of idle funds available for investment.

On the whole, the volume of Government bonds offered for sale was not large, although on some days rather large blocks of securities changed hands. Few of the offerings were pressed for sale at the market, a large part of them being offered only at limited price concessions. On the other hand, bids for such securities were available in moderate volume, at least at comparatively small price concessions, during most of the month, so that the offerings on the whole were fairly readily absorbed. Long term Government bonds showed net declines for the month of less than  $\frac{5}{8}$  of a point, as compared with the drop of more than 8 points in the period just preceding and following the outbreak of the war last September, and high grade corporation bonds held virtually unchanged. In general, conditions in the bond market have been sufficiently stable to offer little interference with the flotation of new securities, which continued in moderate volume.

Holdings of Government bonds by New York City banks, in the aggregate showed some net increase during the month (although some individual institutions lightened their portfolios) and weekly reporting member banks in other principal cities reduced their holdings only slightly. Some selling came from the small member and nonmember commercial banks throughout the country, while savings banks and insurance companies are reported to have been buyers.

Excess reserves of member banks rose to successive new high levels during the past month, and on April 24 amounted to \$6,120,000,000, an increase of \$440,000,000 since March 27. The actual increase in member bank reserves was nearly \$590,000,000 during the period, but reserve requirements increased about \$150,000,000 as the result of a continued rise in the volume of deposits. The principal factors causing the rapid increase in bank reserves were a further increase of \$295,000,000 in the gold stock, which reached a new high level at more than \$18,700,000,000 on April 24, and net Treasury disbursements of more than \$300,000,000.

Yields on Treasury bonds, notes, and bills rose slightly during April, but other money rates remained unchanged at the previous low levels.

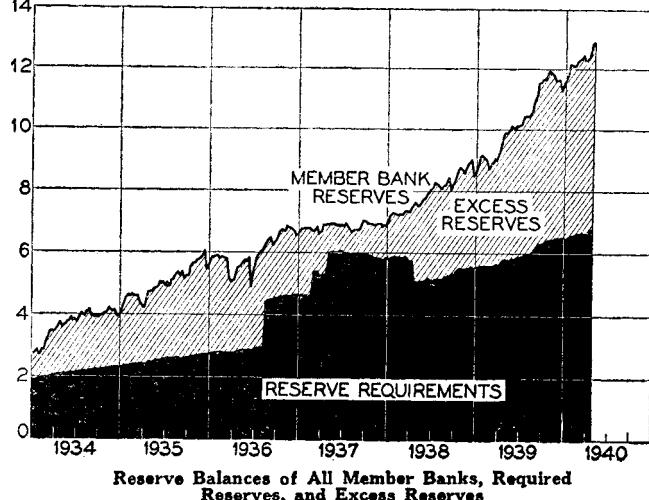
Money Rates in New York

	Apr. 29, 1939	Mar. 30, 1940	Apr. 29, 1940
Stock Exchange call loans.....	1	1	1
Stock Exchange 90 day loans.....	*1 $\frac{1}{4}$	*1 $\frac{1}{4}$	*1 $\frac{1}{4}$
Prime commercial paper 4-6 months.....	$\frac{1}{2}$ - $\frac{5}{8}$	$\frac{1}{2}$ - $\frac{5}{8}$	$\frac{1}{2}$ - $\frac{5}{8}$
Bills - 90 day unindorsed.....	$\frac{1}{8}$	$\frac{1}{8}$	$\frac{1}{8}$
Average yield on Treasury notes (3-5 years).....	0.48	0.40	0.45
Average yield on Treasury bonds (not callable within 12 years).....	2.26	2.21	2.25
Average rate on latest Treasury bill sale. 91 day issue.....	0.016	†	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.....	$\frac{1}{2}$	$\frac{1}{2}$	$\frac{1}{2}$

\* Nominal

† Sold at prices slightly above par, and at par.

BILLIONS  
OF DOLLARS



## MEMBER BANK CREDIT

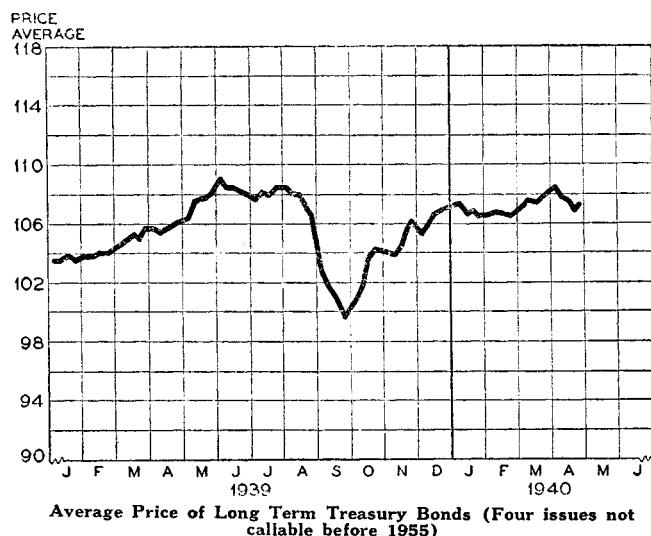
Total loans and investments of weekly reporting member banks increased \$255,000,000 during the four weeks ended April 24, to a volume which has been exceeded previously only in three weeks in the autumn of 1929, when New York City banks took over a large volume of brokers loans which had been called by other lenders. Most of the increase continued to be in investments. The volume of loans also increased somewhat, reflecting chiefly a further increase in commercial and industrial loans, which rose slightly above the highest level reached last fall, but, in general, the demand for bank loans remained limited.

In the New York City reporting banks total investments rose \$94,000,000 during the four weeks, reflecting increases of \$90,000,000 in holdings of Treasury notes, \$20,000,000 in Treasury bonds, and \$27,000,000 in Government guaranteed securities, partly offset by a reduction of \$11,000,000 in Treasury bills and \$32,000,000 in other securities. Fluctuations in the volume of commercial and industrial loans reflected mostly retirements or additions of a few sizable term loans, the net change for the four week period being an increase of \$10,000,000, which left the total volume somewhat below the high point of last fall.

In other principal cities throughout the country, the largest change in loans and investments of reporting member banks was an increase of \$91,000,000 in holdings of Treasury bills, about half of which occurred at Chicago banks, where substantial amounts of bills, which had been sold temporarily in the latter part of March, were repurchased the first half of April. Aside from such transactions, the principal changes in investments were reductions of \$21,000,000 in Treasury notes, and \$24,000,000 in Treasury bonds, and increases of \$21,000,000 in Government guaranteed securities and \$47,000,000 in other securities. Commercial and industrial loans in these banks increased \$26,000,000 during the four week period to the highest level since early in 1938.

## GOVERNMENT SECURITIES

During the opening days of April prices of United States Government securities continued the rising tendency which prevailed in March and, at the highest levels reached, long term Treasury bonds came within about  $\frac{1}{2}$  point of the peak quotations of last June. This high level was approximately maintained until after the news of the German invasion of Denmark and Norway reached this market before the opening of business on April 9. On that day, the average price of long term Treasury bonds receded one point, reflecting in part a precautionary marking down of quotations by the dealers shortly after the opening of trading, and in part the effect of numerous, though not heavy, sales by smaller banks and other investors which, however, were accompanied by buying, as prices declined, by the larger commercial banks and insurance companies. In succeeding days, prices, though irregular under the influence of foreign news, on the whole moved higher and by April 13 a net recovery of about  $\frac{3}{8}$  of a point had occurred in long term Treasury bonds. Subsequently, however, following



rumors concerning possible extension of the war to other parts of Europe, prices began to recede again, and in the week ended April 20 long term issues declined about  $\frac{7}{8}$  of a point. After the 20th, prices recovered about  $\frac{3}{4}$  of a point, and for the month as a whole, long term Treasury bond prices showed a net recession of less than  $\frac{5}{8}$  of a point.

The maximum decline during the month in closing prices of Treasury bond issues not callable before 1955, amounted to slightly more than  $1\frac{1}{2}$  points. Prices of these same issues declined more than 8 points last August and September, in anticipation of and in response to the outbreak of the conflict. The accompanying diagram shows the course of average prices of long term Treasury bonds since the beginning of last year, and indicates the limited extent of the April decline, as compared with the decline which occurred around the time of the beginning of hostilities in Europe.

Prices of shorter term United States Government obligations also showed some downward readjustment during April. Treasury notes of 3 to 5 year maturity, for example, moved from a 0.40 per cent yield basis at the end of March to 0.45 per cent near the end of April, as compared with a net rise of 0.04 per cent to 2.25 per cent in the average yield on long term Treasury bonds.

Treasury bill financing was continued during April in the amount of \$100,000,000 a week, composed of 91 day bills issued to replace similar maturities. Accepted bids for the first three weeks' issues were at prices of par and slightly below par, but the entire issue dated April 24 was sold at prices below par for the first time since the issue dated February 28. The average rate on this last issue was 0.004 per cent.

## COMMERCIAL PAPER AND BILLS

Average grade prime 4 to 6 month commercial paper continued to be sold at  $\frac{1}{2}$  and  $\frac{5}{8}$  per cent in April, the same rates as in a number of months past. Especially choice paper continued to be sold at  $\frac{3}{8}$  per cent. Of the total amount of paper available in the open market the bulk moved at  $\frac{1}{2}$  per cent. New paper entered the market in continued small volume, and bank investment

demand for commercial paper far exceeded dealers' current offerings. Paper outstanding through reporting commercial paper dealers totaled \$233,100,000 at the end of March; a month earlier the total was \$226,400,000, and a year ago, \$191,200,000.

In the bill market, trading activity remained slow in April because of the continued small amount of bills made available by accepting institutions, and rates were unchanged. The following table shows the volume of the various classes of bankers' bills outstanding at the end of March, in comparison with the figures for a month earlier and for March, 1939.

(Millions of dollars)

Type of acceptance	Mar. 31, 1939	Feb. 29, 1940	Mar. 30, 1940
Import.....	87	95	90
Export.....	58	45	47
Domestic shipment.....	9	8	9
Domestic warehouse credit.....	33	43	40
Dollar exchange.....	2	15	14
Based on goods stored in or shipped between foreign countries.....	56	27	30
Total.....	245	233	230

## Foreign Exchanges

Foreign exchange trading in the New York market during the past month was featured by the repercussions of the outbreak of active warfare in Scandinavia, following the German occupation of Denmark and parts of Norway on April 9. Although rates, particularly for the Allied currencies, showed erratic fluctuations, turnover continued small on most days, as the market showed some hesitancy to make commitments pending clarification of the situation in Norway.

The developments in Scandinavia were followed by the imposition of control by the United States Government over specified transactions here involving property in which Denmark, Norway, or any national of these countries, has any interest. By virtue of an Executive Order signed by the President on April 10, all such transactions (including foreign exchange dealings) are prohibited except as specifically authorized by Treasury regulations or licenses. Applications for licenses must be filed with the Federal Reserve Bank of the District in which the applicant resides, and licenses for approved transactions are issued by the Secretary of the Treasury or by the Federal Reserve Banks acting in accordance with instructions of the Treasury. Furthermore, Treasury regulations provide for the filing (beginning not later than May 15) of detailed reports concerning property interests of Norway and Denmark, and nationals thereof, in this country.

No quotations have been available in the New York market for the Danish and Norwegian currencies since the April 8 closing quotations of \$0.1932 and \$0.2272, respectively. The Swedish krona rate, which had held near the level of \$0.2380 during recent months, showed an irregularly weaker tendency, accompanying apprehension concerning the maintenance of Sweden's neutrality, but after reaching a low of \$0.2340 on April 10, it recovered subsequently to about \$0.2366. Effective April 9, Swedish control authorities were reported to have temporarily strengthened restrictions on foreign exchange transactions.

After fluctuating irregularly in a thin market between \$3.54 and \$3.59 during the first week of April, the New York rate for sterling fell  $12\frac{1}{8}$  cents during the early trading on April 9 to \$3.43 $\frac{1}{2}$ , the lowest quotation in terms of the dollar since April, 1933. During the next few days the pound rate seemed to show extreme sensitivity to various reports of the Scandinavian developments, temporarily recovering to as high as \$3.61 $\frac{1}{2}$  in early Amsterdam trading on April 11, and then falling back, in the New York market, to about \$3.49 on the following day. During the latter half of April unofficial quotations for the pound moved less erratically within a range of about \$3.48-\$3.54, and the end-of-the-month rate of about \$3.51 was about  $2\frac{1}{2}$  cents lower than at the end of March. European institutions, which had been consistent sellers in previous months, reportedly acquired sterling on balance in this market on a number of days during the latter part of April. This demand tended to absorb the continued liquidation by Far Eastern interests. The New York rate for the French franc, meanwhile, continued to fluctuate along with the pound throughout the month, reaching a new low of \$0.0194 $\frac{3}{4}$  on April 9. By the end of the month, however, French exchange had returned to \$0.0200, as against \$0.0200 $\frac{1}{2}$  a month earlier.

The Belgian rate, which was quoted at \$0.1709 $\frac{1}{2}$  on April 8, began to recede the following day and reached a low of \$0.1673 on April 17. Subsequently, a firmer tendency was shown, and the spot quotation, which appears to have been little affected by the temporary resignation of the Belgian Cabinet under M. Pierlot, closed the month at \$0.1689 $\frac{1}{2}$ . In the forward market, however, the discount on three month belga contracts widened to the equivalent of about  $16\frac{1}{2}$  per cent per annum during the latter half of the month. The Dutch and Swiss currencies appear to have been under pressure on many days, although the spot rates held narrowly around \$0.5309 and \$0.2242 $\frac{1}{2}$  in this market. Forward guilder deliveries, on the other hand, were quoted at rather wide discounts.

Among the non-European exchanges, the Canadian dollar improved considerably during April, and at the end of the month was quoted in terms of the United States dollar at a discount of about  $14\frac{7}{8}$  per cent, as against  $18\frac{9}{16}$  per cent at the end of March.

## Gold Movements

Imports of gold into the United States during April were considerably smaller than in the previous month, but were larger than in January or February. The amount of gold held under earmark for foreign account at the Federal Reserve Bank of New York, however, decreased about \$70,000,000 during April, following an increase of over \$200,000,000 in March. At the end of April approximately \$1,235,000,000 of gold was held under earmark for foreign account. The increase in the gold stock of the United States during the past month amounted to about \$335,000,000, the largest monthly gain since the beginning of the war in Europe.

Following imports of \$231,200,000 of gold into the United States in the week ended March 27, of which \$185,800,000 came from Canada, receipts during the four weeks ended April 24, as reported by the Depart-

ment of Commerce, totaled \$248,900,000. Of this amount \$57,100,000 was imported from Sweden, \$44,600,000 from Canada, \$43,600,000 from the United Kingdom, \$30,300,000 from Switzerland, \$21,700,000 from Italy, \$20,200,000 from South Africa, \$6,000,000 from Hungary, \$4,700,000 from Japan, \$3,600,000 from the Philippines, \$3,300,000 from the Netherlands, \$3,100,000 from Australia, \$3,100,000 from India, \$2,300,000 from Mexico, \$2,100,000 from Colombia, and \$1,700,000 from Hong Kong.

## New Financing

The total of new financing during the past month—\$330,000,000—was somewhat above the average level prevailing during the first quarter of this year while the amount representing funds for new capital purposes was considerably greater than in any month since June, 1939. Corporate and municipal issues each accounted for \$60,000,000 of new capital funds. Refunding issues totaled \$200,000,000 for corporations and \$10,000,000 for States and municipalities. Despite uncertainties occasioned by developments abroad, there were no postponements of important issues scheduled for the market and, in general, offerings were well received. Prices paid for municipal issues seemed to reflect a confident attitude on the part of municipal dealers and also the small supply of available bonds. Stock issues played a prominent part in corporate financing and the total of \$75,000,000 for that classification was the largest since July, 1937. The \$81,600,000 Union Pacific Railroad Company issue, publicly offered on the last day of the month, was the largest piece of railroad bond financing since March, 1936.

The following were the larger corporate and municipal issues floated during April, in addition to which there were more numerous small issues than in recent months.

\$81,600,000	Union Pacific Railroad Company 3½ per cent refunding bonds of 1980, priced at 102 to yield 3.41 per cent
36,000,000	Inland Steel Company first mortgage 3 per cent bonds of 1961, priced at 102 to yield 2.87 per cent, for refunding
17,150,000	Indianapolis Power and Light Company 714.835 shares common stock, priced at \$24 a share; \$1,500,000 for new capital purposes
16,000,000	Kansas Gas and Electric Company first mortgage 3¾ per cent bonds of 1970, sold privately at around 105, for refunding
15,950,000	Safeway Stores, Inc., 147,688 shares 5 per cent cumulative preferred stock, priced at 108; \$2,000,000 for new capital purposes
14,300,000	The Kansas Power and Light Company 139,169 shares 4½ per cent cumulative preferred stock, priced at 103, for refunding
10,250,000	The Toledo Edison Company, \$3,000,000 first mortgage 3¼ per cent bonds of 1970 priced at 104½ to yield 3.02 per cent, and \$7,250,000 3½ per cent sinking fund debentures of 1960 priced at 102 to yield 3.36 per cent; \$4,200,000 for new capital purposes
10,000,000	The Superior Oil Company 3½ per cent debentures of 1950, priced at 100, for new capital purposes
10,500,000	State of New Jersey 1¼ per cent unemployment relief bonds of 1943-1950 (callable after three years), reoffered to yield 0.35 to 1.30 per cent to maturity
10,000,000	Commonwealth of Pennsylvania Turnpike revenue 3¾ per cent bonds of 1968, reoffered at 100.

Not included in the \$330,000,000 total mentioned above is \$143,000,000 of short term financing arranged during the month. The principal issues in this field were \$75,000,000 State of New York 0.15 per cent notes due in November, 1940, \$23,500,000 Federal Intermediate Credit Banks 0.75 per cent consolidated debentures, and \$19,900,000 of six month notes of sixteen housing authorities, the bulk of which was sold at a net interest cost to the authorities of 0.435 per cent per annum.

Registration statements filed with the Securities and Exchange Commission and other public announcements indicate that the following new security issues may be forthcoming in the near future: \$75,000,000 United States Steel Corporation serial debentures; and, to be offered to shareholders, 773,000 shares (\$30,900,000) of common stock of Montgomery Ward and Company, Inc., and 600,000 shares (\$30,000,000) of \$2 dividend convertible preferred stock of the Bank of America National Trust and Savings Association.

## Security Markets

As in the other months since last September, fluctuations of stock prices continued to be within a narrow range in April. During the first eight days of the month prices generally advanced somewhat, continuing the firmer tendency which developed in the latter part of March. As a result, the general average of share prices reached a level some 5 per cent above the year's low reached earlier in March, but did not reattain the level of the first part of January which, while the highest of this year, was about 3 per cent below the peak reached soon after the outbreak of the war.

Following the German invasion of Denmark and Norway on April 9, stock prices immediately began to recede and by April 18 had returned to a point only slightly above the year's low. Subsequently, slightly firmer price tendencies were evident, but quotations near the end of April showed slight declines from the closing quotations of March.

Trading on the New York Stock Exchange was somewhat more active during the first three weeks of April; daily turnover during this period, averaging 1,300,000 shares, was about the same as in the latter part of October, and with that exception the heaviest since September. In the subsequent part of April, however, the volume declined below one million shares a day.

High grade domestic corporation bonds, as measured by Moody's Investors Service Aaa average, rose about ¾ of a point further during the opening days of April and reached new high levels. After April 8, however, these issues eased, and by April 16 were down about 1⅓ points from their earlier highs. Subsequently, the underlying investment demand for bonds again caused firmer price tendencies for these high grade corporate issues, which closed the month only ½ point below their earlier highs, and hence little changed from the end of March quotations.

Medium grade corporation bonds likewise moved up in the first part of April, the advance in the case of this group of bonds averaging over 1⅓ points. In the decline which followed the broadening of the war in Europe, only about one point of this advance was lost, and in the

latter part of the month there was a recovery of about  $\frac{3}{4}$  of a point. As a consequence, the closing level for this class of bonds as a whole was about  $\frac{7}{8}$  of a point higher than at the end of March.

In the municipal bond category, high grade issues, after advancing early in April to about as high a range as had been reached earlier in the year, showed a decline which was not fully recovered by the end of April. In the foreign list, prices of Danish and Norwegian dollar bonds underwent drastic declines in April, as was to be expected, and a number of other foreign issues also showed net declines for the month.

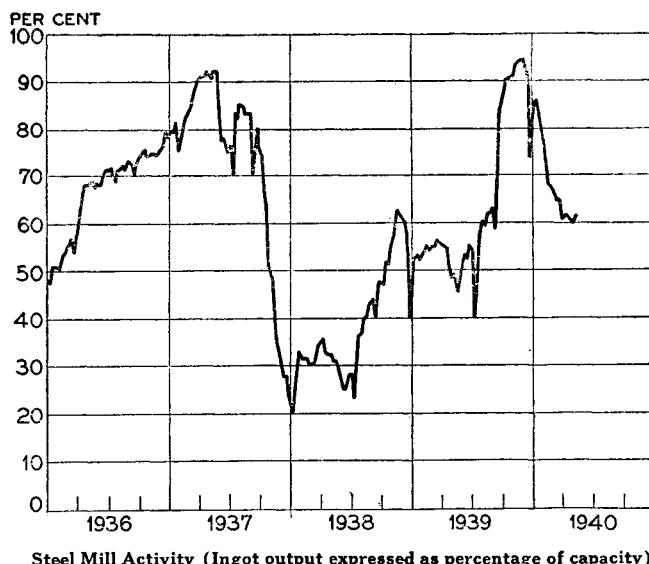
### Central Bank Rate Changes

The Reichsbank lowered its rate on April 9 from 4 to  $3\frac{1}{2}$  per cent, the higher rate having been in effect since September 22, 1932. The present rate is the lowest since 1909, when a  $3\frac{1}{2}$  per cent rate prevailed during a seven month period. The statement of the Swedish Riksbank of March 21, reported an increase of one-half per cent in the rate for three month bills rediscounted for private banks. This brings the rediscount rate to the same level as the official discount rate of 3 per cent.

### Production and Trade

From early indications it appears that after adjustment for seasonal factors there was not much change in the general level of business activity in April, following the decline in the first quarter of the year. As the accompanying diagram indicates, steel ingot production was maintained at an average rate slightly above 60 per cent of capacity, after declining from 93 per cent in November to 63 per cent in March. Increased export business and seasonal demands from domestic consumers are reported to have accounted for the relative stability in steel making operations during April. Accompanying firmer cotton cloth prices, mill sales of cotton goods increased sharply during the first half of April to a volume considerably in excess of production, but subsequently fell below the current rate of output. Automobile production was continued at slightly over 100,000 units weekly, and, judging from incomplete figures, bituminous coal production declined considerably less than usual, and electric power production was well maintained. Railway freight traffic, however, continued to show a declining tendency after seasonal adjustment. The daily rate of sales of department stores in this District during the first three weeks of April was higher than the March average, whereas not much change was expected between these two months, seasonal factors considered.

The general level of business activity declined further in March, although there was less contraction than in either of the two preceding months. This bank's broad index of production and trade is placed at 88 per cent of estimated long term trend for March, indicating a reduction of 1 point, in contrast to declines of 3 points in both January and February. The decline in production continued to be concentrated in the durable producers' goods industries. There was also a further decline in the movement of goods in primary distribution channels, as evidenced by statistics of railway freight traffic.



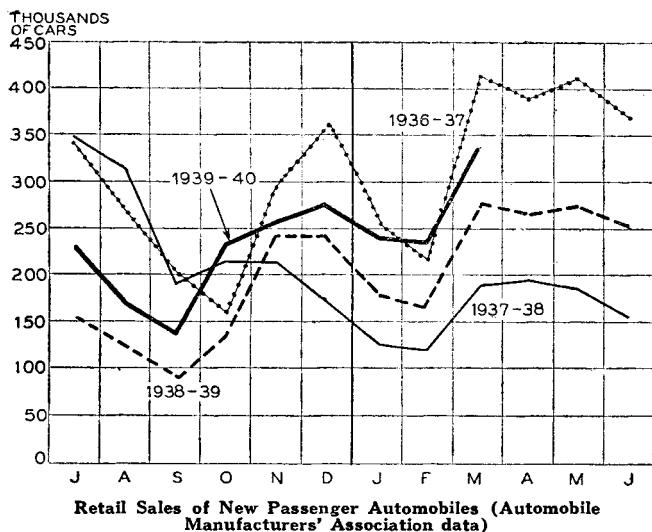
Steel Mill Activity (Ingot output expressed as percentage of capacity)

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

	1939		1940	
	Mar.	Jan.	Feb.	Mar.
<i>Index of Production and Trade</i> †	83	92	89p	88p
Production of:				
Durable producers' goods.....	70	93	84p	78p
Nondurable producers' goods.....	87	97	93p	92p
Durable consumers' goods.....	63	77	75p	74p
Nondurable consumers' goods.....	92	96	93p	94p
Primary distribution.....	78	89	85p	82p
Distribution to consumer.....	90	94	92p	93p
<i>Industrial Production</i>				
Steel.....	66	107	84	72
Automobiles.....	72	88	96	85
Bituminous coal.....	83r	94	89	86p
Crude petroleum.....	88	93	94	95p
Electric power.....	91	99	97p	97p
Cotton consumption.....	96r	110	106	102
Wool consumption.....	112	110	101	94p
Shoes.....	111	111	105p	95p
Meat packing.....	92	103	103	103
Tobacco products.....	91	85	88	86
<i>Employment</i>				
Employment, manufacturing, U. S. r.....	87	97	95	93p
Employee hours, manufacturing, U. S. ....	80	91	88	87p
<i>Construction</i>				
Residential building contracts r.....	44	42	42	42
Nonresidential building and engineering contracts r.....	53	45	57	46
<i>Primary Distribution</i>				
Car loadings, merchandise and misc.....	78	86	84	80
Car loadings, other.....	71r	89	79	79
Exports.....	88	106	107	101p
Imports.....	71	86	69	71p
<i>Distribution to Consumer</i>				
Department store sales, U. S.....	86	88	85	84
Department store sales, 2nd District.....	81	81	74	77
Chain grocery sales.....	96	99	99	97p
Other chain store sales.....	88	97	94	98
Mail order house sales.....	99	97	99	97
New passenger car registrations.....	69	85	86	93p
<i>Velocity of Deposits</i> *				
Velocity of demand deposits, outside New York City (1919-25 average = 100) .....	60	59	58	59
Velocity of demand deposits, New York City (1919-25 average = 100) .....	36	27	25	26
<i>Cost of Living and Wages</i> *				
Cost of living (1926 average = 100) r....	82	82	83	83p
Wage rates (1926 average = 100).....	111	113	113p	113p

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

† Back figures for the index of Production and Trade and its subordinate group indexes are available upon request (from 1919 monthly).



Distribution of goods to consumers, however, was well maintained during March. Retail sales of new passenger cars, shown in the accompanying diagram, rose sharply as in other recent years, and continued higher than in either 1938 or 1939. Variety chain store sales advanced somewhat more than usual, and about all of the usual seasonal increase occurred in department store sales for the country as a whole. Mail order house and chain grocery sales showed small decreases after seasonal adjustment.

### Employment and Payrolls

During March, factories reporting to the New York State Department of Labor showed an increase of 1 per cent from February in the number of persons employed, which was somewhat less than the usual rise, and a seasonal advance of 3 per cent in payrolls. Inclement weather and the early date of Easter curtailed the usual spring expansion in the manufacture of clothing, and unfavorable weather conditions also adversely affected companies supplying the construction industry. While a further decrease in employment occurred in metals and machinery plants, payrolls in these industries increased following the declines in January and February. Compared with March, 1939, total factory employment was 11 per cent greater and payrolls were 12 per cent higher.

An increase of 165,000 workers in nonagricultural occupations in March was reported for the United States as a whole by the Secretary of Labor. Although the gain over February was smaller than usual, approximately 1,000,000 more workers were engaged in these pursuits than in March, 1939. Employment in retail trade increased by nearly 150,000 persons between February and March to handle Easter and other spring business, and increased working forces were reported in private building construction. Manufacturing establishments, however, laid off about 55,000 persons, and railroads also reduced employment during March.

Between the middle of February and the middle of March, factory employment in the United States declined about 1 per cent, and payrolls showed little change, although ordinarily there are increases in both employ-

ment and payrolls at this time of year. The number of employees was reduced in March at iron and steel works and at textile plants, especially woolen mills, but working forces continued to increase in industries stimulated by wartime and Government orders, such as shipbuilding, machine tools, and aircraft. Total factory employment was 7 per cent above the level of March, 1939, and payrolls were 12 per cent greater.

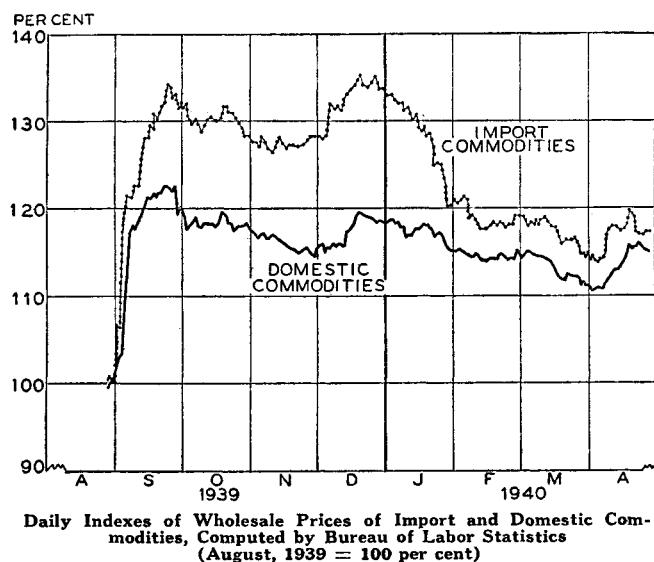
### Commodity Prices

The spread of hostilities into Scandinavia early in April was followed by the first considerable upward movement of commodity prices this year. The Bureau of Labor Statistics daily index of 28 basic commodities rose 4 per cent in ten days and recovered 40 per cent of the January-March decline. Reactionary tendencies toward the end of the month, however, somewhat reduced the net gain for the month. The moderate extent and selective character of the April rise made the movement more analogous to the December advance than to the sharp, broad rise in commodity quotations at the outbreak of the war in September.

The price of wheat at Kansas City showed a gain of 8½ cents to \$1.12½ a bushel through April 22, 4 cents above the 1939 high level reached in December, but later reacted. Factors in the rise included, besides the war news, unfavorable growing conditions and the Government April 1 crop estimate of only 426,000,000 bushels of winter wheat. Cash corn, following several months of fluctuations within a narrow range, rose 9¾ cents to 68½ cents a bushel on April 22, the highest level since October, 1937; scarcity of supplies owing to the large amount of the grain sealed under Government loan appears to have been a major factor in the gain. The average price of hogs at Chicago, after touching a six year low of \$4.93 a hundredweight on the first day of the month, rose \$1.46 during the next three weeks to \$6.39 a hundredweight. Hides recovered the 7/8 cent loss of the previous month to reach 13 cents a pound, and steers rose 59 cents to \$10.63 on April 11.

Aided by large mill sales of cotton gray goods during the first half of April, the average price of cotton at ten Southern markets advanced ¼ cent to 10.59 cents a pound on April 22, but lost about one third of this gain subsequently. Silk, on the other hand, declined 25½ cents further to \$2.61 a pound. Stimulated by fear of a shortage of shipping space because of the possible withdrawal of Scandinavian vessels from service, raw sugar at New York rose 10 points to 2.90 cents a pound on April 16, and rubber rose 15/8 cents to 20 cents a pound two days later—the highest levels in several months for both commodities.

Price movements in the principal metal markets were irregular during April. Following the broadening of the war, custom smelters raised their price for copper by ¼ cent a pound to the 11½ cent price quoted by producers, but subsequently returned to the 11¼ cent quotation. Lead showed a net rise of 5 points to 5.10 cents a pound, and tin reached 47½ cents a pound, a gain of 2 cents over the previous month's close. Scrap steel began to show signs of strengthening in certain markets toward the end of the month. Reductions in



quotations on steel sheets and strip, announced April 11, were withdrawn two weeks later.

The accompanying diagram presents two principal subgroups—import and domestic commodities—of the Bureau of Labor Statistics daily price index of 28 basic commodities. Import commodities rose more sharply than domestic commodities at the outbreak of the war last September and remained at a considerably higher level until January. A sharp decline in import commodities during that month brought the two groups much closer together and movements in February and March were generally similar in direction and magnitude. In April the domestic group, aided chiefly by rising agricultural quotations, regained about half of its loss since December, but the import classification recovered only about a sixth of its decline.

## Foreign Trade

During March a slight increase over the previous month occurred in the value of this country's foreign merchandise trade. Exports, which were valued at \$352,000,000, were larger than in March of any year since 1930, and showed an increase of 32 per cent over March, 1939. Imports of \$217,000,000 were 14 per cent larger than a year ago, but this represented a considerably smaller year-to-year gain than in other recent months. The resulting export balance of \$136,000,000, although somewhat smaller than in February, was the largest for March of any year since 1920.

Compared with March, 1939, large gains continued to be reported in exports of airplanes, iron and steel products, copper, metal working machinery, industrial chemicals, lubricating oil, and raw cotton. Exports of cotton, however, were only 60 per cent of the February volume, owing especially to heavy reductions from the previous month in shipments of American cotton to a number of European countries. Exports of aircraft were approximately the same as in February. Exports of tobacco and the majority of food products continued to be well below a year ago.

With respect to imports during March, receipts of crude materials and semimanufactured goods accounted

for the increase in the aggregate compared with a year ago; imports in all other major categories were somewhat smaller in value. The leading individual imports showing substantial increases in quantities and values were crude rubber, unmanufactured wool, copper, tin, and diamonds. Receipts of silk were slightly larger in value, despite a reduction in quantity. Imports of newsprint paper, burlap, and most of the crude and manufactured food products were only about equal to, or were smaller in value than a year ago. Wood pulp imports showed a large decline from a year ago.

As is indicated in the accompanying table, exports of merchandise from the United States to a number of this country's principal customers have expanded greatly since the outbreak of the European war, especially during the first three months of this year. Shipments to Latin American countries, combined, increased 45 per cent in the September, 1939-March, 1940 period over the comparable months a year ago; for the first quarter of 1940 exports to these countries increased 48 per cent over the first quarter of 1939. United States exports to the United Kingdom were larger than to any other nation; the increase over a year previous amounted to 17 per cent for the September to March period and to 45 per cent for the first quarter of this year. Exports from the United States to Canada in the past 7 months were nearly 50 per cent higher than in the corresponding months of a year previous, and showed a somewhat larger percentage gain for the first quarter of this year. France, the next largest purchaser of United States goods, imported more than twice as much from this country in the period since last September as in the comparable period of 1938-39, and in the first quarter of 1940 the dollar volume was about three and one-half times as large as in the first quarter of last year, reflecting especially heavy French purchases of American airplanes. Exports to Russia, Italy, and Australia represent comparatively small percentages of this country's export trade, but in each case the increases over a year ago have been much greater than average, especially in the first quarter of 1940. Aggregate exports to all countries since last September amounted to \$2,341,000,000, an increase of 34 per cent over the comparable period in 1938-39; the gain for the first quarter of this year over the same period in 1939 was 51 per cent.

Domestic Merchandise Exports from the United States to Various Countries

Country of destination	Dollar value (in millions) Sept., 1939-Mar., 1940	Percentage change in value	
		Sept., 1939-Mar., 1940 compared with Sept., 1938-Mar., 1939	Jan.-Mar., 1940 compared with Jan.-Mar., 1939
Latin American countries (combined)	468	+ 45	+ 48
United Kingdom	371	+ 17	+ 45
Canada	339	+ 48	+ 54
France	193	+134	+249
Japan	156	+ 7	+ 4
Sweden	71	+ 63	+ 34
Netherlands	71	+ 35	+ 24
Philippine Islands	66	+ 19	+ 14
Russia	59	+ 81	+131
Italy	53	+ 60	+104
Australia	50	+ 44	+106
Union of South Africa	43	+ 2	+ 11
Belgium	40	- 4	+ 3
Total, above countries	1,980	+ 38	+ 55
Total, all countries...	2,341	+ 34	+ 51

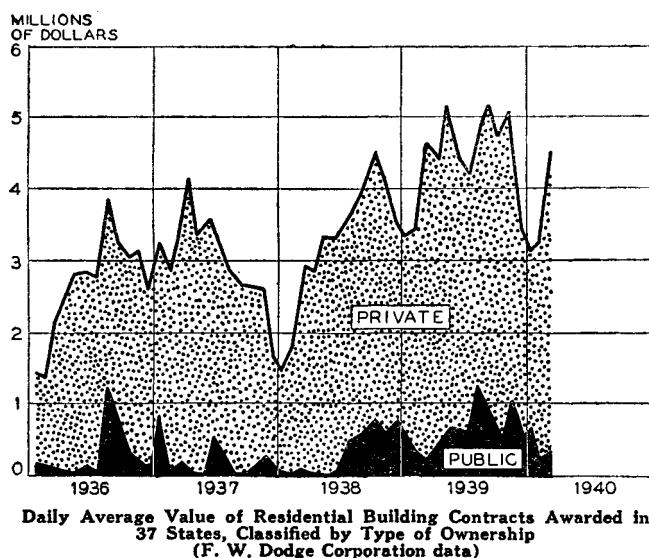
## Building

During the first three weeks of April evidence of seasonal expansion was apparent in construction contracts awarded in 37 States. Compared with the corresponding period of April, 1939, the total amount was somewhat lower, owing to a large reduction in the heavy engineering type of projects. Residential building contracts during this period, however, were substantially larger than in the first three weeks of April of last year.

For March, data compiled by the F. W. Dodge Corporation on contracts awarded in 37 States showed a gain over the previous month of 16 per cent, which, however, was not as large as usual at this time of year. All the major construction categories showed increases over the February daily averages, with the exception of public purpose building which registered a substantial decline. A decrease of nearly 60 per cent from March, 1939, in the latter type of construction was the principal factor in a 10 per cent reduction from a year ago in total contract awards.

The daily rate of construction contract awards in the New York and Northern New Jersey area during March compared more favorably with the February rate than did the figures for the 37 States, but the comparisons with a year ago were less favorable; contract awards of all classes in this area registered a 52 per cent gain over February, but a 24 per cent decline from the March, 1939, level. Large contracts were placed in March for the elimination of railroad grade crossings and highway construction in Metropolitan New York, and consequently the total of heavy engineering work was more than double the February volume, and was also somewhat larger than a year ago.

The accompanying diagram indicates the composition of residential building in the 37 States during recent years, classified according to ownership; from this it is evident that most of the expansion in residential building activity since 1936 has been in private ownership construction. Residential construction under public ownership, as is indicated in the solid portion of the diagram, has shown a declining tendency since last fall, and in February and March represented only 7 per cent of the total, as compared with an average of 14 per cent in



1939. The sharp increase last August in public residential construction reflected the placing of contracts for a number of large scale housing projects under the United States Housing Authority programs in New York, Chicago, and other urban centers. The earlier peaks were also associated with large projects sponsored by Federal Government agencies.

## Department Store Trade

For the three weeks ended April 20, total sales of the reporting department stores in this District were little changed from the corresponding 1939 period. The average daily rate of sales for this portion of April was higher than the March average, whereas not much change was expected between these two months from seasonal factors.

In March, total sales of the reporting department stores in this District were about 1 per cent higher than in March, 1939, and after allowing for differences in shopping days, the increase was nearly 3 per cent. The daily rate of sales for March showed somewhat more than the usual advance from the February average, even considering the early date of Easter. March sales of the leading apparel stores in this District were about 3 per cent lower than last year, and on an average daily basis the decline amounted to approximately 1 per cent.

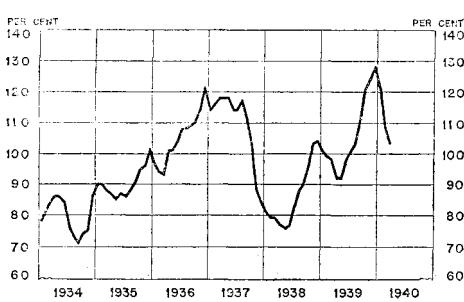
Stocks of merchandise on hand in the department stores, at retail valuation, were about 2½ per cent higher at the end of March than a year ago, while apparel store stocks were 8 per cent lower. Collections of accounts outstanding continued slower than a year ago in the department stores, but were at the same rate as last year in the apparel stores.

Locality	Percentage change March, 1940 compared with March, 1939		Per cent of accounts outstanding February 29 collected in March	
	Net sales	Stock on hand end of month	1939	1940
New York and Brooklyn.....	-0.4	+1.6	48.8	47.4
Buffalo.....	+1.6	+1.9	46.5	44.8
Rochester.....	+3.5	+7.7	57.8	52.9
Syracuse.....	-0.6	+8.2	41.4	38.6
Northern New Jersey.....	+0.6	+5.7	40.9	35.1
Bridgeport.....	+12.3	-2.2	38.2	35.6
Elsewhere.....	+10.8	-1.4	33.8	32.1
Northern New York State.....	+8.8	.....	.....	.....
Southern New York State.....	+4.1	.....	.....	.....
Central New York State.....	+5.0	.....	.....	.....
Hudson River Valley District.....	+8.6	.....	.....	.....
Westchester and Stamford.....	+17.8	.....	.....	.....
Niagara Falls.....	-31.9	.....	.....	.....
All department stores.....	+0.7	+2.4	45.8	42.7
Apparel stores.....	-3.2	-8.0	42.3	42.3

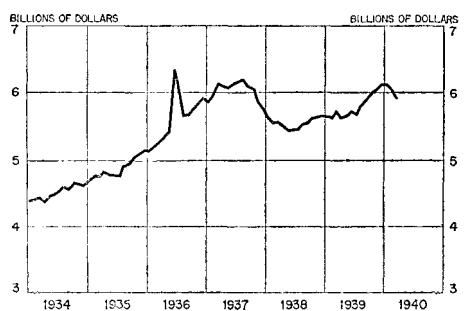
Indexes of Department Store Sales and Stocks, Second Federal Reserve District  
(1923-25 average = 100)

	1940			
	1939	Mar.	Jan.	Feb.
Sales (average daily), unadjusted.....	80	74	69	82
Sales (average daily), seasonally adjusted.....	91	94	86	89
Stocks, unadjusted.....	78	69	76	80
Stocks, seasonally adjusted.....	78	77	81	79

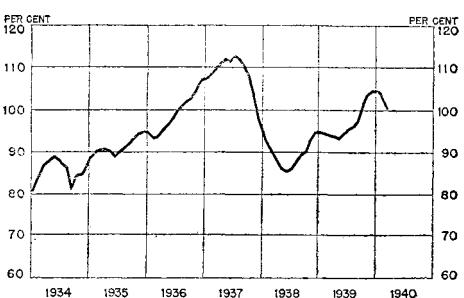
FEDERAL RESERVE BANK OF NEW YORK  
MONTHLY REVIEW, MAY 1, 1940



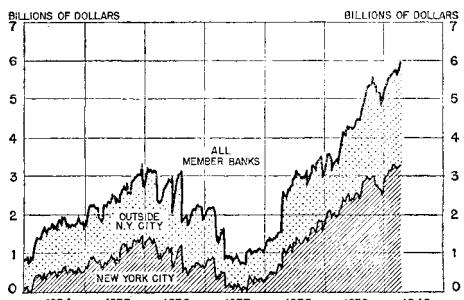
Index of Physical Volume of Industrial Production, Adjusted for Seasonal Variation (1923-25 average = 100 per cent)



United States Department of Commerce Estimates of the Amount of Income Payments to Individuals, Adjusted for Seasonal Variation



Index of Number of Factory Workers Employed, Adjusted for Seasonal Variation (1923-25 average = 100 per cent)



Wednesday Figures of Estimated Excess Reserves of Member Banks (Latest figures are for April 10)

### Business Conditions in the United States

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

INDUSTRIAL activity continued to decline during March but at a somewhat slower rate than in the preceding two months, and in the first half of April there was little further decrease. Wholesale prices of basic commodities decreased somewhat in the latter half of March but recovered by the middle of April. Distribution of commodities to domestic consumers continued in large volume, and exports were at the high levels reached last December.

#### PRODUCTION

The Board's index of industrial production, which is adjusted for usual seasonal variations and for the number of working days, was 103 in March compared with 109 in February. The decline reflected chiefly a further reduction in output of steel and considerable decreases in activity at cotton and woolen textile mills.

Steel ingot production declined from an average of 69 per cent of capacity in February to an average of 64 per cent in March. In the first half of April output was at around 61 per cent of capacity. Automobile production in March and the first half of April was maintained at the high rate prevailing during January and February but did not show the increase customary at this season. Retail sales of automobiles continued in large volume, and dealers' stocks of new cars declined somewhat from the high level reached earlier. In the machinery industries activity showed some decline from the high rate of other recent months, while at aircraft factories and shipyards activity continued at peak levels. Output of lumber and plate glass advanced seasonally in March.

In the woolen textile industry, where activity had been declining from the high level reached last November, there was a further sharp reduction in March. Activity at cotton textile mills also declined considerably but remained at a somewhat higher level than prevailed a year ago. Shoe production likewise declined considerably in March. At silk mills activity remained at an exceptionally low level, while rayon production was large.

Mineral production was maintained in large volume in March. There was some further reduction in output of bituminous coal, but output of anthracite increased, following a sharp decline in February. Crude petroleum production continued at record levels.

Value of construction contracts awarded, as reported by the F. W. Dodge Corporation, increased considerably in March, as is usual at this season. The increase was principally in awards for private work, which in March approximately equaled those in the corresponding period last year. Public awards increased somewhat, following declines in January and February, but were in smaller volume than a year ago. Private residential building rose by about the usual seasonal amount.

#### DISTRIBUTION

Sales of general merchandise at department and variety stores and by mail order houses increased by about the usual seasonal amount from February to March, with allowance for the earlier date of Easter this year. In the first week of April sales at department stores were at a higher level than in March.

Freight car loadings showed little change from February to March, although a rise is usual between these months. Shipments of miscellaneous freight showed considerably less than the usual seasonal increase, and there was some further decline in loadings of coal.

#### FOREIGN TRADE

Exports of United States merchandise in March continued near the high level reached last December. Agricultural exports, principally cotton, decreased from February to March, while there were substantial increases in shipments of commercial vehicles and in metal working, agricultural, and other types of machinery.

During March, the country's monetary gold stock increased by \$256,000,000. In the first two weeks of April the rate of gold inflow was accelerated, acquisitions in this period amounting to \$145,000,000.

#### COMMODITY PRICES

Prices of a number of basic agricultural and industrial commodities, which had declined in the latter part of March, advanced during the second week in April. Prices of certain finished steel products, on the other hand, were reduced, and prices of most other commodities showed little change.

#### GOVERNMENT SECURITY MARKET

Prices of Treasury bonds moved sharply upward during March and the first few days of April to a new high level since last summer. On April 9, however, on receipt of news of the expansion of war activities in Europe, a decline of about one point occurred in long term bonds. Subsequently the market recovered part of the loss. The yield on the 1960-65 Treasury bonds was 2.31 per cent on April 15, compared with a low of 2.26 per cent on April 2.

#### BANK CREDIT

Reflecting continued heavy gold imports, excess reserves of member banks increased during the four weeks ended April 10 to a record high level of \$5,950,000,000. Total loans and investments at banks in 101 leading cities, which had shown little net change during March, increased in the first two weeks of April, reflecting purchases of United States Government obligations.