MONTHLY REVIEW
of Credit and Business Conditions
Second Federal Reserve District

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

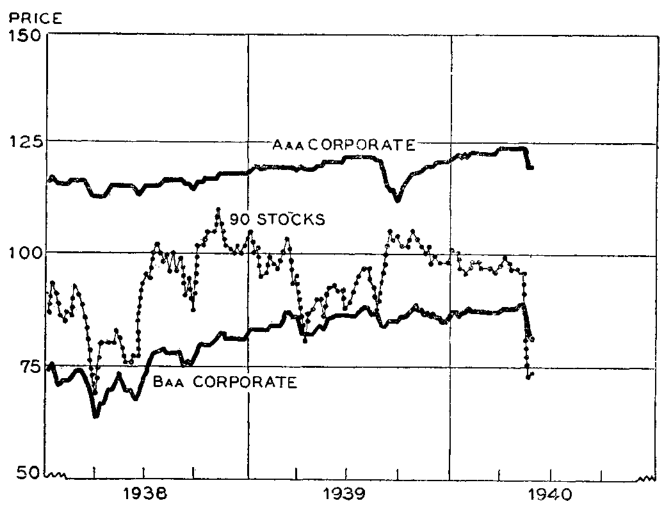
Money Market in May

The security markets, highly sensitive to war developments, reacted sharply to the sudden war moves of the past month. But although the war assumed more nearly the form which had been anticipated when it started eight months ago, the market behavior of the various classes of securities was in striking contrast to their behavior last September. In the weeks immediately following the outbreak of the war in September, heavy selling and sharp declines in prices occurred in the market for Government and other high grade bonds, while active buying and a strong rise in prices occurred in the market for common stocks and, to a lesser degree, in the market for the lower grade bonds. In May, however, the invasion of the Netherlands, Belgium, and Luxembourg, and the subsequent course of the fighting there and in France, brought on an acute weakness in stocks and lower grade bonds, while the market for high grade bonds was subject to much less selling pressure than at the beginning of the war, and prices of such bonds showed no such acute weakness as in that period.

The divergent tendencies in the security markets, during these two periods, may be attributed to the difference in the prevailing attitude of investors toward the war situation. Immediately following the invasion of Poland and the declaration of war by Great Britain and France last September, the rather common expectation in this country was that the war in Europe would lead to acceleration of business activity in the United States, to higher commodity prices, to substantially increased demands for bank credit, and to a rising trend in interest rates, and that, as a result of such developments, investments in the more speculative securities would be profitable, while investments in high grade securities would entail greater risk of depreciation in value. Developments in May, on the other hand, apparently aroused fears as to the outcome and questions as to the duration of the war which increased investors' preference for liquid funds and made many disinclined to take speculative risks, while causing much less apprehension of an early reversal of trend in interest rates. As a result, common stock prices in May fell precipitately and, at the end of the month, average prices were considerably below those prevailing before the war started, having receded to the lowest levels since the spring of 1938. The market for Government and other high grade securities was by no means immune from the disturbing influence of the grave events in Europe, but prices of such bonds during May lost only a little more than half of the ground gained from the low point of last September to the high point reached early in April. During the latter part of May, of course, the development of the preparedness program in this country also had its effect upon the various sectors of the market, but the immediate war influence continued to be dominant.

The irregular decline in the Government security market which had begun April 9, gained momentum after May 10, but selling orders were mostly for small amounts, and at no time did they reach any such aggregate volume as in the early part of last September. Nor was there any such absence of private bids in the market as prevailed at that time. The contrast between the two periods is illustrated by the fact that, while in the first two weeks of last September Reserve Bank holdings of Government securities increased $398,000,000, in the two weeks ended May 22 Reserve Bank holdings of Government securities increased only $10,000,000, yet prices receded considerably less in the recent period than in the earlier period.

The apparent tendency of most investing institutions to retain their holdings of high grade securities, or even to add to their holdings, in the face of disturbing developments abroad, may be attributable largely to the fact that the supply of funds available for investment has continued to increase faster than outlets for the employment of funds. In the four weeks ended May 22, reserves



Prices of Stocks and Corporation Bonds (Standard Statistics Company 90 stock index and Moody's Investors Service average prices of Aaa and Baa bonds)

of all member banks rose $340,000,000, reflecting the combined effects of a continued rapid inflow of gold and large Government disbursements, while total loans and investments of weekly reporting member banks showed a small net decrease. Excess reserves of all member banks, despite a further increase in the amount of required reserves, rose $260,000,000 to $6,370,000,000, a new high level. During the first five months of this year, total member bank reserves increased nearly $1,750,000,000, while total loans and investments of weekly reporting member banks increased less than $300,000,000. Excess reserves of all member banks rose $1,325,000,000 during this period.

Money Rates

Yields on all classes of securities increased somewhat during May, accompanying the decline in security prices, but short term money rates were unchanged except for a slight increase in yields on the weekly issues of Treasury bills. The increase in the average yield on the four longest Treasury bonds was about 1/4 per cent, and on three to five year Treasury notes was a little over 3/8 per cent.

Money Rates in New York

	May 31, 1939	April 30, 1940	May 29, 1940
Stock Exchange call loans	1	1	1
Stock Exchange 90 day loans	*1 1/4	*1 1/4	*1 1/4
Prime commercial paper 4–6 months	1/2–5/8	1/2–5/8	1/2–5/8
Bills—90 day unindorsed	7/16	7/16	7/16
Average yield on Treasury notes (3–5 years)	0.38	0.44	0.84
Average yield on Treasury bonds (not callable within 12 years)	2.13	2.24	2.47
Average rate on latest Treasury bill sale 91 day issue	0.004	0.004	0.067
Federal Reserve Bank of New York discount rate	1	1	1
Federal Reserve Bank of New York buying rate for 90 day indorsed bills	1/2	1/2	1/2

* Nominal

Member Bank Credit

Total earning assets of weekly reporting member banks showed some net reduction during the four weeks ended May 22, as a decrease of $88,000,000 in loans, the principal element in which was a reduction in loans to security brokers and dealers, more than offset a net increase of $48,000,000 in investments.

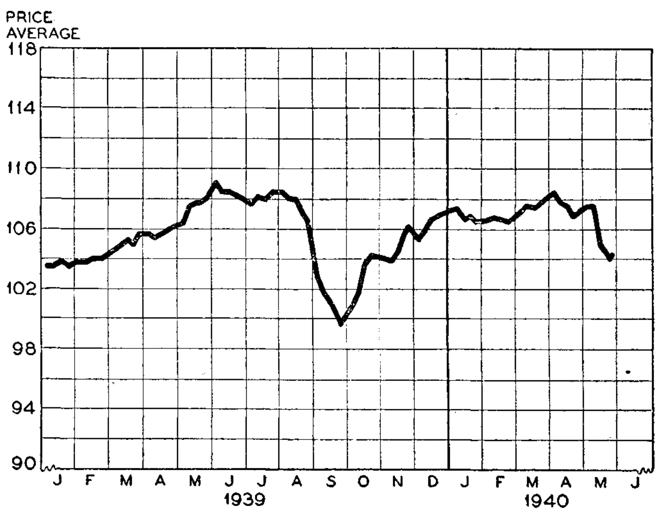
In the New York City banks, loans to security brokers and dealers declined $77,000,000, and commercial and industrial loans were reduced $18,000,000. Total investments showed a net increase of $98,000,000. Treasury bill holdings, reflecting the cessation of temporary special demands in other areas, increased $95,000,000; Treasury note holdings increased $41,000,000; and Treasury bond holdings showed a net increase of $27,000,000 as a result of net purchases of $47,000,000 during the second and third weeks of May, when prices were declining, following net sales of about $20,000,000 in the preceding two weeks. Government guaranteed securities, despite the retirement of a substantial amount of Home Owners Loan Corporation bonds, showed a net reduction of only $10,000,000. Investments in other securities were reduced $55,000,000, reflecting redemptions of maturing State and municipal obligations.

Total loans and investments of reporting banks in 100 other principal cities were reduced $46,000,000 during the four week period, due to moderate reductions in holdings of various classes of Government securities. Holdings of Treasury bonds, after irregular fluctuations in the last week of April and the first two weeks of May, were reduced $34,000,000 in the third week of May, and showed a net decrease of $22,000,000 for the four weeks. Treasury bill holdings also declined $18,000,000, and investments in Government guaranteed securities were reduced $28,000,000, but Treasury note holdings increased slightly. Commercial and industrial loans showed a small decrease, but real estate loans increased somewhat.

Demand deposits in the reporting banks increased with unusual rapidity and reached new high levels, apparently reflecting, in part, continued foreign spending in this country, and in part United States Government disbursements of amounts substantially in excess of receipts. Adjusted demand deposits increased $211,000,000 to $9,332,000,000 in the New York City reporting banks and $226,000,000 to $10,869,000,000 in reporting banks in other cities, during the four weeks.

Government Securities

Intensification of the European war was reflected in declines in prices of United States Government securities, though of smaller extent than the declines in other classes of bonds or in stock prices. During the first part of May the average price of Treasury bonds not callable within 12 years fluctuated within a range of 3/8 of a point, at a level about 1 point below the high of this year reached in the opening days of April, but beginning on May 10, after the German invasion of the Low Countries, these long term issues showed further losses, which by May 24 amounted to about 3½ points. As the accompanying diagram indicates, the recent decline in long term Government bonds was considerably less than the 8½ point drop which occurred last summer in anticipation of and in response to the outbreak of the European war. As a consequence, at the lowest closing quotations reached in May, prices remained some 4¼ points higher, on the average, than at the lows of last September. At no time during the period when prices were declining was the volume of offerings heavy, but there was an increase in the number of sales of small amounts and a reluctance on



Average Price of Long Term Treasury Bonds (Four issues not callable before 1955)

the part of potential buyers to acquire Government securities except after price recessions had occurred. In the last week of May, quotations for long term Treasury bonds tended to be firmer except on May 28 when, following reports of the capitulation of the Belgian army, closing prices temporarily declined to about the same level as on May 24.

In short term Government securities, declines in Treasury notes between May 9 and May 29 resulted in an advance in the average yield on 3 to 5 year Treasury notes from a 0.45 per cent basis to a 0.84 per cent basis. During the same period the long term Treasury bond yield advanced from 2.25 per cent to 2.47 per cent.

The rates on weekly issues of new Treasury bills floated during May showed progressive, though moderate, increases. The issue dated May 1 was awarded at an average rate of 0.007 per cent, as compared with 0.004 per cent on the issue of April 24, and the issue dated May 29 was awarded at 0.067 per cent, the highest rate since September 27, 1939. Each of the five weekly issues of May was in the amount of $100,000,000 and for 91 day periods; they replaced similar maturities.

Commercial Paper and Bills

No change occurred during May in the ½-⅝ per cent prevailing range of rates for average grade prime four to six month commercial paper. Except for a temporary rise last fall, these rates have been in effect since the middle of January, 1939. Especially choice paper was quoted at ⅜ per cent, but, as in recent months, the bulk of the sales were made at ½ per cent. Bank investment demand for commercial paper continued active and readily absorbed the small amounts of new paper currently offered by dealers. A total of $238,600,000 of paper was outstanding through commercial paper houses at the end of April. This compares with $233,100,000 at the end of March, and is the largest amount outstanding in approximately two years. In April, 1939, the amount outstanding was $191,900,000.

Dulness continued to prevail in the market for bankers acceptances during May. With only a small volume of bills being drawn and smaller amounts being released to the market by accepting banks and bankers, the investment demand for bills was largely unfilled.

Security Markets

After holding within a narrow trading range since the advance of last September, stock prices declined rapidly and substantially following the German invasion of Belgium and the Netherlands. Between May 9 and May 21, the general average of stock prices dropped 25 per cent to reach quotations which averaged only 8 per cent above the prices which prevailed at the end of March, 1938, when the bottom of the 1937-38 decline was reached. The decline during the May period was the sharpest for a comparable length of time since October, 1929, and the volume of trading on the New York Stock Exchange increased on several days to between 2 and nearly 4 million shares. After May 21, stock prices registered a small net recovery, despite the decline which occurred on May 28, following reports of the surrender of the Belgian army, and trading was considerably less active than earlier in the month.

Domestic corporation and municipal bond prices also were subject to sizable price declines during May. Bonds of the class rated Baa by Moody's Investors Service showed an average decline of about 8 points from May 9 through May 28. As compared with the lows reached in September, 1939, shortly after the outbreak of the war, the quotations reached in May were about 1½ points lower; Baa railroad bonds declined considerably below the September, 1939 lows, and industrial bonds were slightly lower, while public utility bonds of this grade held considerably above the September lows.

High grade corporate bonds, those rated Aaa by Moody's, which had held close to the highest levels of the year through May 9, declined about 5½ points after the intensification of the war, and recovered only slightly in the latter part of the month. At the lows, however, prices of this class of bonds remained more than 6 points above the September, 1939 lows. Municipal bonds of high grade, although showing large declines, likewise remained considerably above the September, 1939 lows.

New Financing

During May, the capital market was characterized more by deferment of scheduled offerings than by new issues, with the result that the volume of corporate and municipal flotations declined to $155,000,000, the smallest total since September, 1939. Corporate financing accounted for $116,000,000, including $36,000,000 to be used for new capital purposes. Corporate issues totaling about $136,000,000 were deferred, most of these issues having been scheduled for offering to stockholders or to the public during the latter half of the month; three other offerings, made to stockholders and totaling about $39,000,000, were only partially consummated.

The largest corporate offering was $75,000,000 of United States Steel Corporation debentures, which were brought out on May 15 and, despite unsettled conditions in the security markets, were completely disposed of by the syndicate within a little more than a week's time. With the removal of price restrictions, however, quotations for the longer maturities of the issue dropped to substantial discounts below the offering prices. The debentures mature from 1940 to 1955 and were offered at par to yield from 0.375 per cent to 2.65 per cent to maturity. Proceeds from the sale are to be used for refunding purposes. Two issues of New York Central Railroad one to ten year equipment trust certificates were placed privately during the month. The first of these, $10,400,000 of 2 per cent certificates, was awarded (on May 7) to a banking agent on an interest basis of 1.80 per cent, while the second issue, $9,000,000 of 2½ per cent certificates, was sold to banking agents by the Reconstruction Finance Corporation (about May 20) on an interest basis of 2.29 per cent. The Boeing Airplane Company and the Eastern Air Lines, Inc. offered about $5,800,000 and $3,400,000, respectively, of common stock to their stockholders. Owing to the adverse market conditions which developed, substantial unsubscribed portions were taken by underwriters. A similar situation arose with respect to $30,000,000 of convertible preferred stock which the Bank of America National Trust and Savings Association offered its stockholders; it is reported that these securities may be taken up without a public offering at this time.

The largest municipal award was $8,000,000 City of Detroit, Michigan, 3¼ per cent refunding bonds, due serially from 1941 to 1962, which were sold at 100.0028 and placed privately. In general, municipal awards were made on bids substantially lower than on similar previous offerings.

The total of temporary financing, at $251,000,000, was considerably higher than in previous months, owing chiefly to the award by thirty-one local housing authorities of $126,000,000 of six month notes at interest costs ranging from 0.39 per cent to 0.55 per cent. In addition, New York City allotted $60,800,000 of short term notes to a group of banks, and the Federal Intermediate Credit Banks sold $30,600,000 of consolidated debentures.

Gold Movements

Imports of gold into the United States during May were considerably heavier than in the previous month, and apparently in about the same large volume as in March of this year and December, 1939. The increase in the gold stock of the United States during the month amounted to about $440,000,000, the largest monthly gain for the war period. The amount of gold held under earmark for foreign account at the Federal Reserve Bank of New York increased about $40,000,000 and at the end of May amounted to approximately $1,270,000,000.

Gold imports into the United States during the four weeks ended May 22, as reported by the Department of Commerce, totaled $390,200,000, of which $238,000,000 came from Canada, $44,300,000 from the United Kingdom, $35,200,000 from the Union of South Africa, $19,300,000 from Switzerland, $9,900,000 from Italy, $9,400,000 from the Netherlands, $5,300,000 from Australia, $4,700,000 from Japan, $4,500,000 from Sweden, $3,800,000 from Hong Kong, $3,000,000 from Hungary, $2,400,000 from the Philippines, $2,100,000 from Colombia, $2,000,000 from Mexico, and $1,700,000 from British India.

Foreign Exchanges

The events of the past month, which included the withdrawal of Allied forces from southern Norway, the British cabinet crisis, the spread of the war to the Low Countries, and the subsequent German drive into France, all had repercussions in the New York foreign exchange market, where a number of exchange rates declined sharply against the United States dollar.

Most New York exchange dealings continued to be concentrated in the pound sterling, for which, however, the market remained relatively narrow. Rates, therefore, continued highly sensitive to small changes in supply and demand. The pound quotation, which had been as high as $3.53 on April 29, began to show an easier tendency on news of Allied reverses in Norway and, accompanying parliamentary criticism of the Chamberlain Government, this decline was accentuated on May 6, 7, and 8, when the rate receded some 16 cents to $3.31½. Immediately following the sudden German attack on the Low Countries, the first nominal quotations for sterling on May 10 showed wide spreads between bid and offered rates until an opening trade was made at the record low of $3.00. This rate, which was 35 cents below the previous closing quotation and 14½ cents below the previous all time low touched in 1932, represented about a 25 per cent depreciation of free-market sterling against the official rate in the London market. This low level, however, proved to be only temporary, as it soon attracted some demand, particularly by domestic commercial concerns, which stimulated a partial recovery. During the remainder of the month, the pound showed erratic fluctuations within a range of $3.11¾-$3.28¾. No general tendency was apparent, day-to-day movements being influenced mainly by the progress of military operations and by recurrent market rumors of possible new British exchange control measures designed to reduce the supply of sterling which might be offered in the free market. At the end of May the pound was quoted at about $3.20.

Canadian exchange, after ending April at a discount of about 15 per cent against the United States dollar, weakened steadily to a maximum discount of 22¼ per cent on May 25. Toward the end of the month, however, the discount narrowed to about 21½ per cent.

Prior to invasion of the Low Countries on May 10, Belgian and Dutch exchange had undergone severe pressure, largely as a result of continued flight of funds from those centers which previously had been havens for refugee funds. The belga rate declined from $0.1686 at the end of April to $0.1656 on May 9, and the three month forward discount widened to the equivalent of about 20½ per cent per annum. Although the spot quotation for the guilder was maintained at about $0.5309, increased pressure was evidenced in widening discounts on forward deliveries. Since the extension on May 10 of the Executive Order, "freezing" certain foreign assets in this country, to cover Netherlands, Belgian, and Luxembourg assets, no current quotations have been available for the currencies of the Low Countries in this market.

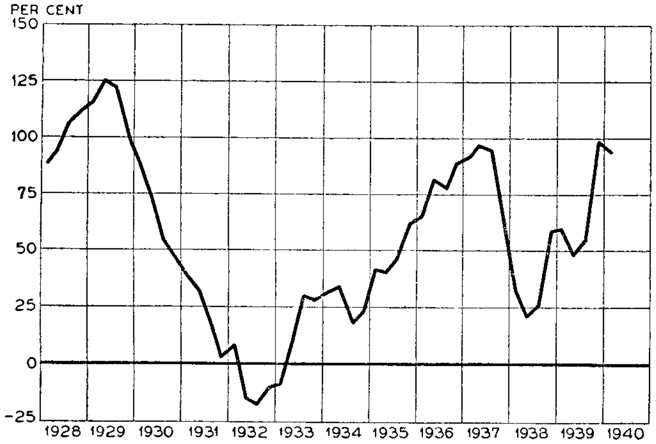
Central Bank Rate Changes

The Swedish Riksbank advanced its discount rate on May 17 from 3 to 3½ per cent, and on May 22 the National Bank of Denmark reduced its rate from 5½ to 4½ per cent.

According to the press, the Administrative Council for the German held part of Norway announced on May 12 a reduction of 1½ per cent in the rate of the Bank of Norway, establishing a 3 per cent rate, presumably effective May 13.

Business Profits

Reflecting the decline in production and trade since last December, this bank's seasonally adjusted index of the net profits of 168 industrial and mercantile corporations showed some recession in the first quarter of 1940, but, as the accompanying diagram indicates, profits remained at a fairly high level. The decline in the index from the ten year peak reached in the fourth quarter of 1939 was due primarily to a more than seasonal recession in the net profits of steel companies, which were comparatively large in the last quarter of 1939. The effect of this decline, and of smaller declines in profits of some other groups, was partly counterbalanced by a rise in seasonally adjusted profits of the automotive group. (Actual profits of automobile companies were maintained at about the level reached in the fourth quarter of 1939, instead of showing a seasonal decline.)



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

First quarter data extending back to 1937, for 437 industrial and mercantile companies, are summarized in the following table. In the aggregate, profits of these companies during the first quarter of 1940 were 68 per cent larger than a year previous and only 5 per cent less than in the first quarter of 1937, which was the period of highest first quarter earnings since 1929. Of the 437 individual companies, less than 10 per cent operated at a loss this year, as compared with 22½ per cent in the first quarter of 1939.

All of the groups of companies shown in the table, with the exception of the bakery group, reported larger profits than in the first quarter of 1939, the largest percentage increases being those of the railroad equipment, paper and paper products, steel, petroleum, machinery and tools, copper, and textile groups. A number of groups also reported larger profits than in the high first quarter of 1937; prominent among these were the aviation, cigar, coal mining, automobile, paper and paper products, and copper mining groups of companies.

(Net profits in millions of dollars)

Corporation group	No. of cos.	First quarter			
		1937	1938	1939	1940
Advertising, printing and publishing	6	3.8	2.3	2.1	3.0
Automobiles	13	60.7	4.5	64.3	83.7
Automobile parts and accessories (excluding tires)	41	21.1	— 2.2	12.7	22.3
Aviation	9	0.6	1.3	3.8	5.9
Building materials and supplies	24	11.2	2.6	4.1	7.9
Chemicals	28	38.5	17.4	26.0	40.0
Containers (metal and glass)	4	1.7	1.0	0.8	1.2
Drugs and cosmetics	7	5.3	4.3	5.5	5.6
Electrical equipment	22	20.5	9.8	11.5	19.4
Food and food products:					
Bakery	7	3.8	4.5	4.6	4.1
Beverages	9	9.0	8.2	9.0	9.5
Confectionery	9	4.4	4.1	5.0	5.4
Other food products	12	15.7	13.9	12.8	14.4
Heating and plumbing	7	2.8	— 1.3	....	0.8
Machinery and tools	39	14.6	5.7	4.2	10.2
Mining:					
Coal	12	1.3	— 1.4	— 0.3	1.9
Copper	5	13.1	6.0	6.8	15.0
Gold and silver	9	6.7	4.5	3.9	3.9
Other	14	6.6	2.9	2.8	5.4
Office equipment	7	6.6	4.3	4.4	5.6
Paper and paper products	17	6.0	2.4	1.8	7.7
Petroleum	25	38.9	28.3	11.7	30.1
Railroad equipment	13	11.8	0.6	1.7	9.9
Steel	30	69.5	— 5.6	11.3	46.0
Stores	15	6.1	1.2	5.0	6.2
Textiles	10	4.7	0.8	1.8	3.8
Tobacco (cigars)	5	0.6	0.5	0.6	0.9
Miscellaneous	38	21.5	7.4	13.6	18.2
Total, 28 groups	437	407.1	128.0	231.5	388.0
Class I railroads, net income	137	15.4	—105.7	—42.8	—12.6
Telephone companies, net operating income	94	60.3	50.0	56.6	62.5
Other public utilities, net income	50	50.8	44.8	50.7	57.9

— Deficit

Class I railroads as a group reported a deficit, after fixed charges, for the first quarter of 1940 amounting to $13,000,000, or considerably less than the $43,000,000 deficit in the corresponding period a year ago. In the first quarter of 1937, Class I railroads earned $15,000,000 of net income, but with that exception the earnings of the railroads this year were the best for any first quarter since 1931. Net operating income of 94 telephone companies increased 10 per cent over the first three months of 1939 and was the highest first quarter since 1931. Net income of 50 other public utilities showed an increase of 14 per cent over 1939 and also over 1937.

Commodity Prices

Accompanying the invasion of the Low Countries on May 10, commodity prices momentarily stiffened in a number of markets, but gains generally gave way to substantial losses as the month progressed, in response to reports of German military successes. The Bureau of Labor Statistics daily index of 28 basic commodities, after advancing 3 per cent between May 9 and May 13, declined during the remainder of the month and showed a 4 per cent decline for May as a whole. The current level of the index is comparable with that of early September, 1939.

Severe declines occurred in wheat markets. The price of wheat at Kansas City, after rising 4⅜ cents on May 10-11, dropped about 30 cents to 81 cents a bushel in the following week; the net loss for the month, however, was reduced to about 24 cents by a recovery following the establishment of minimum trading prices for grain futures and the announcement of a 1940 Government wheat loan program similar to last year's. Improved crop prospects were reflected in the Government May 1 crop report which raised the estimate of the winter wheat crop 34,000,000 bushels to 460,000,000 bushels. Corn, which had declined 8⅝ cents in the week following the attainment on May 11 of a peak of 70¾ cents, the highest level since October, 1937, recovered a large part of this loss and showed little net change for the month as a whole. Livestock quotations moved lower during May.

Cotton prices, reflecting a prospective loss of foreign markets, reached a low point on May 18, when the average price at ten Southern markets was quoted at 9.21 cents a pound, 1¼ cents lower than at the end of April, and well below the level at which cotton would be attracted from the Government loan stock. A subsequent rally of about ¾ cent, attributed to the limited supply of "free" cotton, cut the net loss for the month to about ½ cent a pound. Wool tops, which had risen 5 cents to $1.03 a pound on May 10 to 11, declined 10 cents in the following week and a half. Raw sugar and hides also showed net declines for the month, while rubber and silk registered net advances.

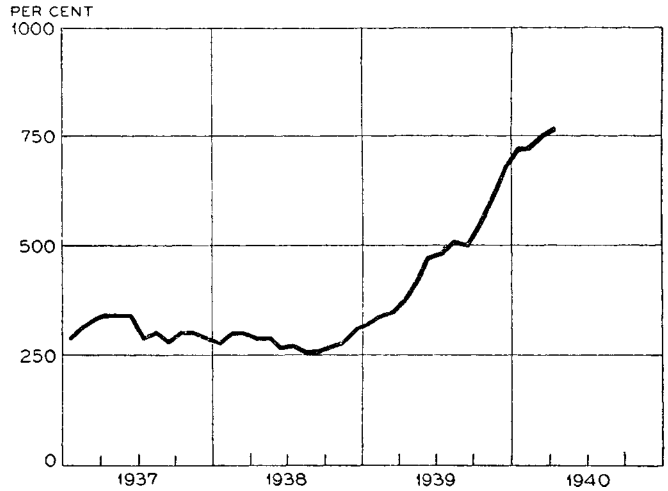
In contrast to agricultural commodities, prices tended higher in a number of metal markets during May. Custom smelters raised their quotations on copper to 11⅜ cents a pound while primary producers continued to quote the 11½ cent price which has prevailed since February. Tin rose 6⅞ cents to 54 cents a pound and the export quota for July-September was raised to 100 per cent by the International Tin Committee, as compared with the present 80 per cent quota. Zinc advanced ¼ cent to 6 cents a pound, the first change since February, but lead receded 10 points to 5 cents a pound. The Iron Age composite price of scrap steel rose $1.79 to $18.17 a ton, the highest quotation since early last December.

Production and Trade

Preliminary evidence indicates that the recession in production and trade was checked, and in some cases reversed during May. Steel mill activity turned upwards early in the month and by the final week operations were averaging about 77 per cent of capacity as compared with 60 per cent at the end of April. In addition to increased orders for steel from the Allied powers, following the development of intensive warfare on the Western Front, steel producers reported numerous inquiries from neutral countries whose steel requirements formerly were served in whole or in part by Belgium and Luxembourg. A further important factor in the rise in steel making during May was specifications against orders for sheets and strip placed during the short period of reduced prices in April. There were also reports that steel producers were tending to expand inventories of steel in crude forms, in anticipation of National defense requirements. Railway freight traffic appears to have increased somewhat more than usual in May, and automobile production and the generation of electric power were well maintained. On the other hand, mill sales of cotton goods were reported considerably below the current rate of production, and bituminous coal output apparently failed to show its usual May increase.

The general level of business activity declined only slightly further between March and April, according to this bank's comprehensive index of production and trade. The index for April is placed at 86 per cent of estimated long term trend, as compared with 87 in March, a peak of 95 last December, and 81 a year ago. Reflecting a well maintained volume of railway freight traffic, the index of primary distribution was unchanged between March and April, and retail trade continued at the general level prevailing since February. Department store sales advanced slightly during April and sales of new passenger cars were well sustained, although declines occurred in some other types of retail trade after seasonal adjustments. As in the first quarter of the year, the decline in production was selective and marked divergences appeared between various lines of activity. Among the series included in the producers' goods group, steel ingot production and textile mill activity declined further in April, while nonresidential construction work increased and some industries stimulated by Government and war orders continued at high levels. Among consumers' goods industries, shoe manufacturing and operations at meat packing plants were somewhat lower after seasonal adjustments; on the other hand, residential construction contracts increased, and activity in a number of other lines held relatively steady.

The President's recent request that the country's aircraft producing capacity be increased to provide 50,000 war planes annually, and measures being adopted to enlarge production, point to a further rapid expansion in this relatively new industry. It has been stated that the fulfilment of the President's program would necessitate the employment of about three times as many workers as are now engaged, and a correspondingly large increase in plant capacity. The accompanying diagram, showing an index of man-hours of employment in air-



Index of Man-Hours of Employment in Aircraft Factories (1933 average = 100 per cent; based on Bureau of Labor Statistics data)

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

	1939	1940		
	April	Feb.	Mar.	April
Index of Production and Trade †	81	89	87p	86p
Production of:				
Producers' durable goods	67	83	77p	74p
Producers' nondurable goods	80	93	92p	91p
Consumers' durable goods	60	75	72p	68p
Consumers' nondurable goods	91	95	95p	94p
Primary distribution	75	84	82p	82p
Distribution to consumer	90	92	92p	92p
Industrial Production				
Steel	61	85r	73r	71
Automobiles	68	96	86r	80
Bituminous coal	30r	89	85	101p
Crude petroleum	89	94	95	93p
Electric power	91	97	97p	96p
Cotton consumption	96r	106	102	98
Wool consumption	85	101	94	71p
Shoes	100r	105	95p	89p
Meat packing	89	103	103	101
Tobacco products	89	88	86	94
Employment				
Employment, manufacturing, U. S.	87	95	93	92p
Employee hours, manufacturing, U. S.	80	88	87	86p
Construction				
Residential building contracts	38	42	42	45
Nonresidential building and engineering contracts	74	57	46	56
Primary Distribution				
Car loadings, merchandise and misc. r	77	84	80	79
Car loadings, other r	60	80	79	84
Exports	81	107	101	99p
Imports	77	69	70	69p
Distribution to Consumer				
Department store sales, U. S.	85	85	84	86
Department store sales, 2nd District	78r	74	77	78
Chain grocery sales	95	99	97	96p
Other chain store sales	99	94	98	92
Mail order house sales r	96	95	93	92
New passenger car registrations	68	86	89	88p
*Velocity of Deposits**				
Velocity of demand deposits, outside New York City (1919-25 average = 100)	59	58	59	57
Velocity of demand deposits, New York City (1919-25 average = 100)	31	25	26	27
*Cost of Living and Wages**				
Cost of living (1926 average = 100) r	82	83	83p	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).

craft factories, portrays the growth of this industry since 1937. As reflected by labor "input," activity of airplane plants has doubled since a year ago, and has reached a level nearly eight times the 1933 average. It is estimated that approximately 100,000 workers are now employed in the manufacture of airplanes, airplane engines, and accessories.

Foreign Trade

Merchandise exports from the United States during April were valued at $324,000,000, a decline of 8 per cent from March, reflecting in part the extension of the European war and its effects on shipping facilities, and in part the customary seasonal decline at this time of year. Reductions in exports to the Scandinavian countries and the Netherlands, as well as to South American and Far Eastern countries, were, however, partly counterbalanced by increased exports to the Allied powers and to the majority of the British Dominions. Compared with the relatively low level in April of last year, total exports from the United States showed a 40 per cent gain. On the other hand, the value of this country's merchandise imports, at $212,000,000, while but slightly below the March figure, showed only a 14 per cent increase over April, 1939.

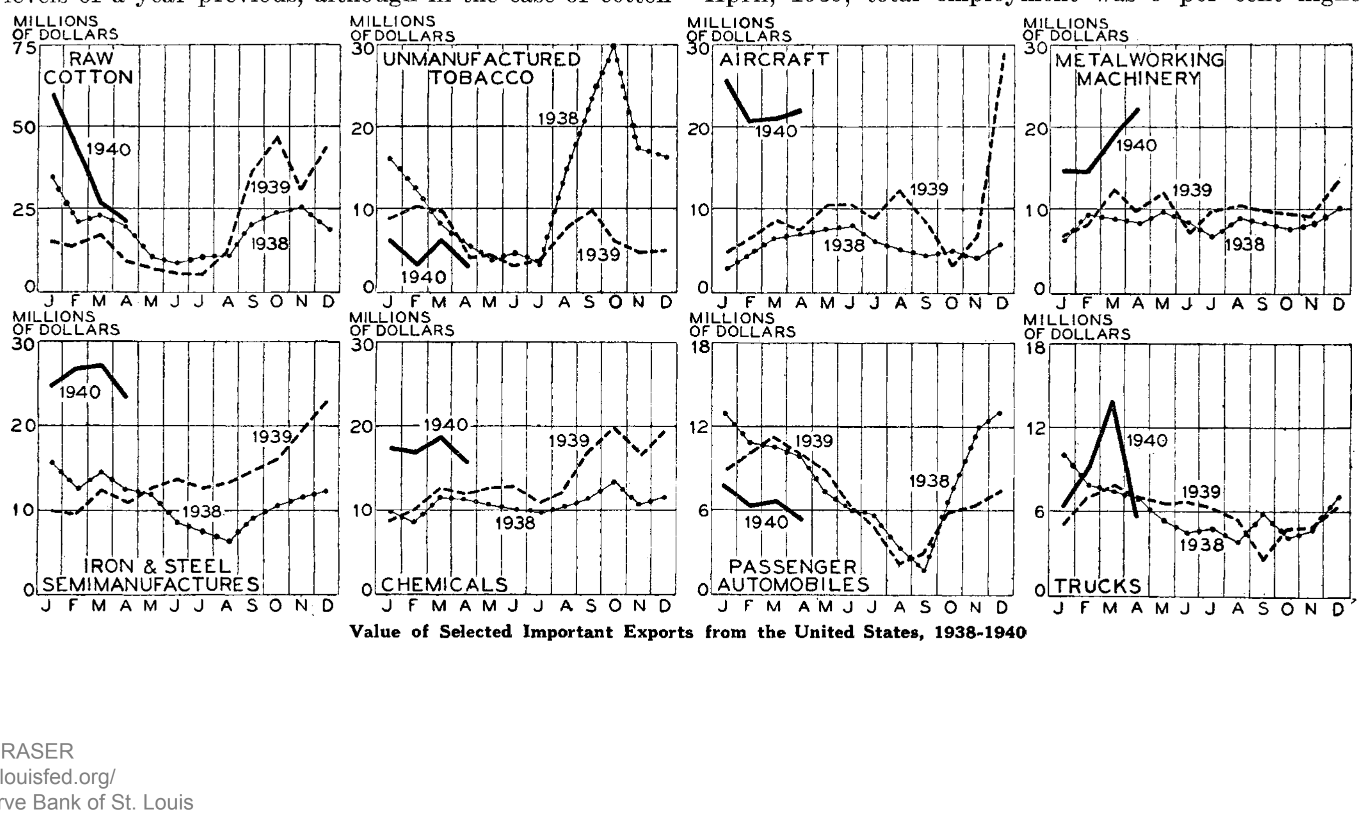
The export balance of $112,000,000 was the smallest since last November, but was considerably larger than the excess of exports in April, 1939. For the eight months since the outbreak of war, the export balance of the United States has amounted to $923,000,000.

The accompanying diagram shows the monthly values of eight of the leading merchandise exports from this country during 1938, 1939, and the first four months of this year. Owing in considerable measure to changes in the requirements of the belligerents for American products, large shifts since last September have occurred in these exports from the United States, as is indicated in the diagram. In general, exports of aircraft, metalworking machinery, iron and steel products, chemicals, and raw cotton during recent months have been far above the levels of a year previous, although in the case of cotton the excess has narrowed considerably since January. The value of motor truck exports, while fluctuating rather widely in recent months, has also averaged somewhat above the level of a year previous. In addition, exports of lubricating oil, not shown in the diagram, registered a 66 per cent increase in April over a year previous. On the other hand, exports of American tobacco and passenger automobiles, and of several other products—wheat and wheat flour, gasoline, and crude petroleum, which are not shown in the diagram—have been below the levels of a year ago.

With respect to imports, a 42 per cent gain over a year ago was recorded in the crude materials classification during April, which was the combined result of higher prices and increases in quantities of such imports as undressed furs, crude petroleum, rubber, and unmanufactured wool. Imports of semimanufactures, including woodpulp, inedible expressed oils, and nonferrous metals, showed an advance of 12 per cent over April, 1939. Receipts of coffee and sugar were also somewhat larger in quantities and values than a year ago. Imports of most other items of food and the majority of manufactured products, however, were smaller than in April of last year.

Employment and Payrolls

Between the middle of March and the middle of April, the number of factory workers employed in New York State was reduced 2½ per cent, and payrolls decreased nearly 5 per cent. These declines, which were greater than the usual seasonal recessions, reflected in part exceptionally large lay-offs at clothing and millinery establishments. Associated with the early date of Easter and unfavorable weather conditions during the spring selling season, employment and payrolls in the apparel lines declined 11 per cent and 22 per cent, respectively, the largest April declines for the apparel industries in the 25 year record of the New York State Department of Labor. Metalworking plants and textile mills reported slightly reduced working forces in April, while the stone, clay, and glass products industries increased both employment and payrolls seasonally. Compared with April, 1939, total employment was 9 per cent higher



Value of Selected Important Exports from the United States, 1938-1940

and payrolls were 11 per cent greater.

Little change in nonagricultural employment in the country as a whole was reported from March to April, although usually there is a substantial increase at this time of year. Employment gains in construction, public utilities, and the service industries were largely offset by an estimated decline of 75,000 wage earners in factories, a larger than usual reduction of 66,000 employees in retail and wholesale trade, and decreased working forces in coal mines. It is estimated that there were over a million more workers actually employed than in April, 1939, but in that month some 300,000 coal miners were temporarily out of work pending the signing of new wage agreements.

The reduction in United States factory employment and a concurrent decline in payrolls in April occurred at a time of year when ordinarily there is little change. The largest decreases in working forces occurred in the apparel and textile groups, practically all branches of these industries reporting reduced employment. Steel mills and automobile factories also employed somewhat fewer workers. Continued gains occurred at certain factories stimulated by Government or war orders, and seasonal increases occurred in the food and construction material industries. Total factory employment was 6 per cent above the April, 1939 level, and payrolls were 13 per cent higher.

Building

During April construction contracts in the 37 States covered by the F. W. Dodge Corporation survey were awarded at a daily rate 19 per cent above the March average, but 5 per cent below the level of a year ago. All the major construction categories, except public utilities, showed gains over the previous month, partly in reflection of the usual seasonal expansion at this time of year. Contracts for residential building registered a 20 per cent increase over March, and reached the highest monthly total since 1929. Owing especially to the placing in April of large contracts for educational buildings, the public purpose classification showed a 54 per cent increase over the comparatively small March volume, but was about one-fourth less than in April, 1939. Contracts for heavy engineering projects were reduced 34 per cent from April of last year, but gains over a year ago amounting to 23 and 29 per cent, respectively, occurred in awards for residential building and for commercial and industrial building.

For the first four months of 1940, total contract awards were 12 per cent lower than in the corresponding period of 1939; large decreases in awards for public purpose building and heavy engineering projects more than offset the effect of increases in the commercial, industrial, and residential building categories.

In the New York and Northern New Jersey area the average daily rate of contract awards during April was 5 per cent lower than in March and showed a decrease of 23 per cent from April of last year. Contracts for heavy engineering projects were reduced to the smallest monthly total since February, 1938, but total contracts for other types of construction showed a gain over both the previous month and a year ago. Residential building awards were 20 per cent larger than in March and 42 per cent above the level in April, 1939; contracts for commercial and industrial building advanced 53 per cent from the previous month and registered an increase of 39 per cent over April of last year. On the other hand, awards for public purpose building, though slightly larger than in March, were 60 per cent below the volume of a year ago. For the first four months of this year, contracts for all types of construction were 33 per cent below the total for the comparable period of 1939; awards for commercial and industrial building alone showed a gain, which amounted to 26 per cent.

During the first three weeks of May the daily rate of construction contract awards in the 37 States remained approximately the same as in April; increases in contracts for heavy engineering projects and residential building were counterbalanced by a decline in contracts for nonresidential types of building. Compared with the first three weeks of May, 1939, however, total contract awards showed a gain of 5 per cent.

Department Store Trade

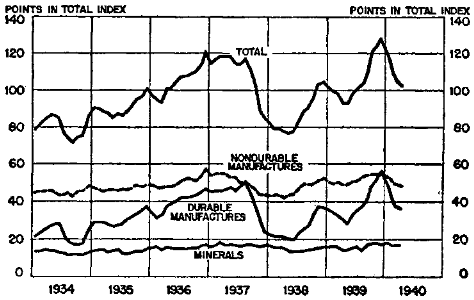
For the four weeks ended May 25, total sales of the reporting department stores in this District were practically unchanged from the corresponding 1939 period. The average daily rate of sales for this portion of May showed somewhat less than the expected seasonal advance from April.

Total April sales of the reporting department stores in this District were approximately 1½ per cent lower than in April, 1939, a less favorable year-to-year comparison than in a number of months, which is attributable to the early Easter this year. The daily rate of sales was higher than in March, although not much change between these two months was to be expected on the basis of seasonal factors. Total sales of the leading apparel stores in this District were about 3½ per cent lower than in April, 1939.

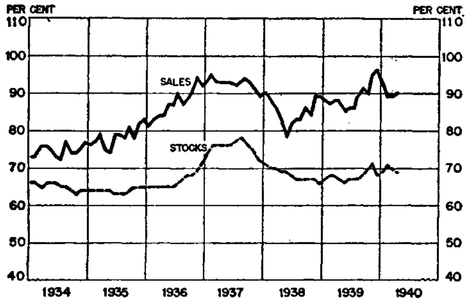
Locality	Percentage change April, 1940 compared with April, 1939		Per cent of accounts outstanding March 31 collected in April	
	Net Sales	Stock on hand end of month	1939	1940
New York and Brooklyn	— 2.4	+ 1.1	47.4	48.0
Buffalo	0	+ 0.7	45.7	44.0
Rochester	— 1.2	+ 6.6	57.0	54.3
Syracuse	+ 7.0	+ 7.5	39.9	40.9
Northern New Jersey	0	+ 6.4	39.8	35.9
Bridgeport	+ 0.1	— 1.1	36.7	38.7
Elsewhere	— 3.1	+ 4.2	32.8	32.4
Northern New York State	— 1.0	......	....	....
Southern New York State	— 7.2	......	....	....
Central New York State	— 2.3	......	....	....
Hudson River Valley District	— 5.5	......	....	....
Westchester and Stamford	— 1.6	......	....	....
Niagara Falls	+ 6.2	......	....	....
All department stores	— 1.7	+ 2.3	44.7	43.6
Apparel stores	— 3.6	— 9.2	43.4	45.0

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

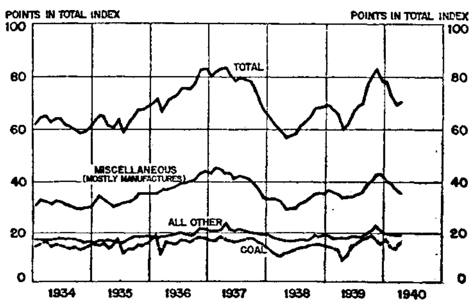
	1939	1940		
	Apr.	Feb.	Mar.	Apr.
Sales (average daily), unadjusted	86	69	82	83
Sales (average daily), seasonally adjusted	89	86	89	90
Stocks, unadjusted	78	76	80	80
Stocks, seasonally adjusted	77	81	79	78



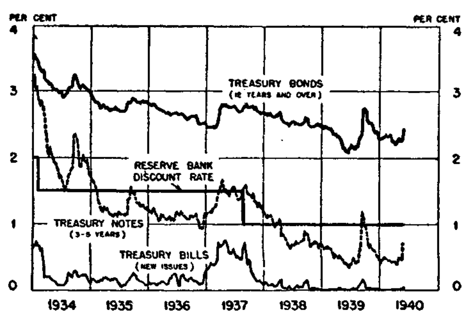
Index of Physical Volume of Industrial Production, Adjusted for Seasonal Variation (1923-25 average = 100 per cent; durable manufactures, nondurable manufactures, and minerals expressed in terms of points in total index)



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



Index of Total Loadings of Revenue Freight, Adjusted for Seasonal Variation (1923-25 average = 100 per cent; miscellaneous, coal, and all other car loadings expressed in terms of points in total index)



Money Rates in New York City

Business Conditions in the United States

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

INDUSTRIAL activity was steady during April after three months of sharp decline, and in the first half of May increases appeared in some lines, particularly steel. Prices of basic commodities showed mixed changes toward the middle of May, accompanying the extension of active warfare in Europe, while stock prices declined sharply.

Production

The Board's seasonally adjusted index of industrial production for the month of April was 102, compared with 104 for March and 109 for February. Steel ingot production was steady during April at slightly over 60 per cent of capacity as compared with an average rate of 64 per cent in March; in the first half of May output rose sharply and currently is scheduled at about 70 per cent of capacity. Automobile production in April continued at about the March rate, although ordinarily there is an increase at this season, and in early May declined somewhat. Retail sales of new cars approximated production in April and dealers' stocks of both new and used cars remained at earlier high levels. Output of plate glass, used largely by the automobile industry, declined considerably in April, and lumber production showed somewhat less than the usual seasonal increase. In the machinery, aircraft, and shipbuilding industries activity continued at the high rate of other recent months.

In the textile industry activity at cotton and woolen mills declined somewhat further in April, following considerable reductions in March. At silk mills activity remained at a low level, while rayon production was maintained at a high rate. Output at meat packing establishments continued in large volume. There was some further curtailment in shoe production in April; in most other industries producing nondurable goods changes in output were largely seasonal in character.

Coal production, which usually declines sharply in April, showed only a small decrease this year. Output of crude petroleum, which had reached record high levels in March, was largely maintained in April and the first half of May, although stocks of crude oil were increasing and gasoline stocks were unusually large.

Value of construction contract awards increased further in April, reflecting principally a rise in contracts for private building, according to figures of the F. W. Dodge Corporation. Awards for private residential building were in somewhat larger volume than a year ago. Private nonresidential building was about one-third greater than at this season last year and was near the previous peak level reached in mid-1937. Awards for public construction, however, were considerably below the level of last spring.

Distribution

Distribution of commodities to consumers showed little change in April and the first half of May. The Board's seasonally adjusted index of department store sales was 90 per cent of the 1923-1925 average in April, about the level that has prevailed since the first of the year but below the peak of 96 reached last December.

Total freight car loadings in April were in about the same volume as in March. Shipments of coal declined less than seasonally, while loadings of miscellaneous freight, which include most manufactured products, showed less than the sharp rise that is customary at this season. In the early part of May increases were reported in shipments of most classes of freight.

Commodity Prices

Prices of a number of basic commodities, which had been declining after a rise in April, advanced from May 10 to May 14. Increases in this period were particularly marked for imported materials, such as rubber, tin, and silk. Grain prices rose at first but subsequently showed sharp declines. Price changes for other commodities were mixed; steel scrap advanced, while cotton declined considerably. Prices of certain steel products, which had been reduced early in April, were restored to earlier levels on May 1, and producers announced that steel purchased at the lower prices must be taken by the buyers on or before June 30.

Government Security Market

Prices of United States Government securities declined sharply from May 10 to May 14, accompanying the further spread of war in Europe. Prices of long term Treasury bonds on May 14 were 3¾ points below the high point reached on April 2. The yield on the 1960-65 2¾ per cent bonds rose from 2.26 per cent on April 2 to 2.48 per cent on May 14.

Bank Credit

Total loans and investments at reporting member banks in 101 leading cities increased during the four weeks ended May 8. Most of this increase was at New York City banks and reflected purchases of United States Government obligations. Deposits and reserves of banks in leading cities continued at record high levels.