MONTHLY REVIEW
of Credit and Business Conditions
Second Federal Reserve District

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

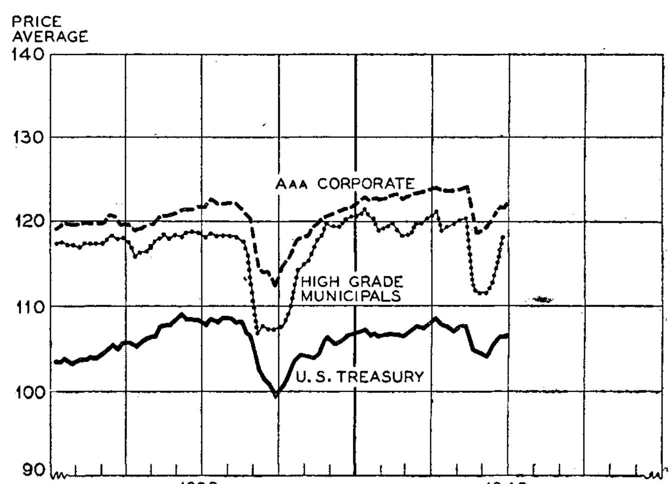
Money Market in June

Developments in Europe continued to be a major influence in security markets of the United States during June, but climactic events seemed to have less influence than in the prewar period or earlier in the war. During the first week of June prices of securities moved irregularly in very dull markets, despite the German army advance in northern France, and the entry of Italy into the war was followed by only a short lived decline in American security markets which left stock prices but slightly below their May lows and high grade bond prices at or above the May lows. In the course of the week after the Italian declaration of war, stock prices recovered about one third of the May-June decline, and high grade bonds registered larger recoveries. After it became known that France had been forced to seek an armistice the advance in stock prices largely ceased, but high grade bonds continued strong, with the result that the recovery in long term United States Government bonds was extended to more than three fourths of the preceding decline and considerable recoveries occurred in other high grade bonds. Subsequently, when the Franco-German and Franco-Italian armistice terms became known, both stocks and bonds lost a part of the previous recoveries, but as the month closed advancing price tendencies were again evident.

The marked recoveries in domestic bond prices appear to be due to a belief that the existing capacity of the country's banking and credit system to finance expansion of ordinary and emergency credit and capital requirements of business is indeed large, and, therefore, that no use of available funds important enough to absorb a sizable part of the existing excess reserves of the banks and cause materially higher interest rates seems imminent. In the case of long term Government bonds, two special circumstances contributed in some measure to the strength of prices in June. These factors were the decision of the Treasury to refund the $353,000,000 of 3⅜ per cent Treasury bonds of 1940-43, which had been called for payment June 15, by means of an issue of short term notes rather than by an issue of bonds, and the statement of the Secretary of the Treasury that with respect to issues of Government securities to finance the National defense program he favored the issuance of securities which would not carry the tax exemption features of currently outstanding Government securities. Municipal bonds also advanced, following the Secretary's statement.

Because of a strong demand for Treasury bonds at sharply rising prices and the scarcity of offerings of such obligations, the Reserve System Open Market Account sold $3,800,000 of Treasury bonds during the week ended June 19, in order to satisfy a portion of the demand and thereby aid in the maintenance of an orderly market. These sales followed purchases of $10,400,000 of Government securities in the two weeks ended May 22.

During June a further large increase occurred in the credit base available to support expansion of bank loans and investments. Reserve balances of all member banks, during the four weeks ended June 26, rose over $500,000,000, and as only a portion of this increase was absorbed by the increase in reserve requirements which accompanied the rise in deposits in the banks, member bank excess reserves showed an increase of $440,000,000, reaching a new high level of $6,800,000,000 on June 26. As for some months past, increases in the gold stock of the United States were the principal factor tending to enlarge member bank reserves. For the calendar month of June, it appears that the increase in the gold stock approximated $755,000,000, which exceeds the previous record increase of $624,000,000 in September, 1938, and is substantially above the $440,000,000 increase during May. Since the beginning of this year, the gold stock has increased $2,300,000,000, and has risen $3,300,000,000 since the beginning of the war. Not all



Movements of Prices of High Grade Bonds (Moody's Investors Service data for Aaa bonds; Standard Statistics Company data for high grade municipal bonds)

of the June increase in the gold stock immediately affected member bank reserves, as there was a partially offsetting rise in the amount of foreign bank deposits held in the Federal Reserve Banks.

In view of their constantly increasing excess reserves, the banks of the country would appear to be able to provide ample funds for whatever credit needs may arise from expansion of productive facilities during coming months as the Government's preparedness program develops. This fact has underlined the desirability of keeping such financing in normal channels, whenever possible, and called attention anew to the desire of the banks to increase their loans. The President of the Federal Reserve Bank of New York, at the request of the New York City banks, on June 13, 1940, sent the following letter to each member of the National Defense Advisory Commission, assuring them that New York City banks are prepared, to the limits of their powers, to facilitate the financing of the Government's program of preparedness.

> A number of the New York City banks have recently expressed to me their desire to cooperate with the government's program of preparedness and I called a meeting yesterday of representatives of the principal New York City banks at the Federal Reserve Bank of New York to discuss ways and means of making their facilities available in support of that program. All of the banks represented at that meeting share with others a full realization of the national importance of the preparedness program and they are fully alive to their own responsibilities in doing everything properly within their power to cooperate with the government in its successful conclusion. Accordingly, the meeting requested me to send their views to the several members of the National Defense Advisory Commission for the reason that demands for funds may well result from programs for expansion which your Commission may recommend or approve.
>
> Of course, it is realized that many companies which may have been asked by the government to expand their capacity for production beyond the requirements of their normal business may be able and willing to do so with their own cash, or possibly by resorting to the capital market. Others, however, will require credit. It is with this other group in mind that the bankers have advised me that they are prepared, to the limit of their powers, consistent with the protection of their depositors, to make loans to those industries whose expansion, whether of plant, equipment, inventory or labor, is deemed to be an essential part of the government's program of preparedness. They believe, as I do, that much of that expansion may properly and safely be financed by bank loans and that it is more advisable in such cases for borrowers to make use of established banking channels than to resort to the government, directly or indirectly, for credit accommodation. The preparedness program quite properly relies, in the first instance, upon established industrial concerns for additional production, and it would seem to be equally important, in the interest of national defense, that the established commercial banking system be relied upon, in the first instance, as the natural source of any additional financing. It is confidently believed that in the great majority of cases companies requiring credit to finance additional production, contemplated as a part of the program of national defense, will be able to obtain such credit by applying directly to their own local banks. If any such bank is not able to provide the necessary accommodation in full, the New York City banks would welcome an opportunity to collaborate with a view to supplementing such accommodation to the extent that may be necessary.
>
> No specific cases being before us, it is, of course, necessary to make this letter general in its terms. No reference is made to the maturity of the loans that might be requested since it seems reasonable to believe that any company borrowing funds to expand its plant or equipment solely for preparedness purposes would expect to write off such an investment within the probable period of the emergency and that appropriate provision would be made for the amortization and final payment of the loan within a related period.
>
> The chief purpose of this letter is simply to assure the members of the National Defense Advisory Commission and other interested government officials that the New York City banks represented at the meeting yesterday are prepared to do everything properly within their powers to cooperate with the government and to facilitate the successful accomplishment of its program of preparedness. Either I or representatives of the banks in question would be pleased to have an opportunity to discuss this whole matter in further detail if you care to have us do so.
>
> At the request of the banks represented at yesterday's meeting, I am sending a copy of this letter to the Secretary of the Treasury, the Board of Governors of the Federal Reserve System, and the Federal Loan Administrator.

Member Bank Credit

So far, the volume of commercial, industrial, and agricultural loans made by all reporting banks has been little changed from the volume outstanding in the first four months of this year, although there was an unseasonal increase of $32,000,000 in such loans at New York City banks during the three weeks ended June 26. Reflecting, however, the increases which occurred in the last four months of 1939, the volume of commerical, industrial, and agricultural loans outstanding on June 26 at all reporting banks was $400,000,000 higher than immediately before the outbreak of the war.

Total loans and investments of the weekly reporting member banks increased by a net amount of $57,000,000 during the four weeks ended June 26. New York City reporting banks showed an increase of $58,000,000 during this period which more than accounted for the increase in total earning assets of all reporting banks. In addition to the increase in commercial loans, the principal changes in New York were a further increase of $127,000,000 in Treasury bill holdings of these banks and a further decline of $74,000,000 in loans to brokers and dealers, which were reduced to only $276,000,000, a new low of record.

Money Rates

Short term money rates were unchanged during June with the exception of a further small rise in the rates at which the weekly issues of new Treasury bills were awarded, which for the most part proved to be temporary. Yields on Government securities of intermediate and long term receded about 3/16 of one per cent, thus canceling a large part of the advances which occurred in May.

Money Rates in New York

	June 30, 1939	May 31, 1940	June 29, 1940
Stock Exchange call loans	1	1	1
Stock Exchange 90 day loans	*1¼	*1¼	*1¼
Prime commercial paper 4-6 months	½ - ⅝	½ - ⅝	½ - ⅝
Bills—90 day unindorsed	7/16	7/16	7/16
Average yield on Treasury notes (3-5 years)	0.48	0.85	0.64†
Average yield on Treasury bonds (not callable within 12 years)	2.21	2.48	2.30
Average rate on latest Treasury bill sale 91 day issue	0.005	0.067	0.046
Federal Reserve Bank of New York discount rate	1	1	1
Federal Reserve Bank of New York buying rate for 90 day indorsed bills	½	½	½

* Nominal

† Change of +0.01 per cent in average yield due to inclusion of the new issue of 1 per cent Treasury notes, series C, maturing September 15, 1943, and dropping of the 1⅛ per cent Treasury note issue, series A, maturing June 15, 1943, because it matures within three years.

Government Securities

A stronger tone prevailed in the Government securities market during much of June. Because of the critical situation in Europe, no announcement concerning an exchange offering to the holders of the $352,993,000 of 3⅜ per cent bonds of 1940-43 which had been called for redemption on June 15, 1940, was made by the Treasury until June 10 after the close of the market that day. The offer then announced gave holders of the called bonds an opportunity to exchange them, par for par, on June 15 for 1 per cent Treasury notes due September 15, 1943; cash subscriptions were not accepted. About 79 per cent of the 3⅜ per cent bonds were actually so exchanged.

Prices of both long and intermediate term Treasury bonds moved up about 1¾ points in the five days following the announcement of the Treasury offering, partly owing to the preference of some holders of the called bonds to acquire bonds rather than notes. The movement was interrupted as the French asked for armistice terms on June 17, but later in that same week, further price gains were registered by Treasury bonds, the long term issues showing a more pronounced rise than the intermediates. By June 22 prices of Treasury long term bonds had recovered more than three quarters of the loss during the May 9-June 10 decline. Subsequently, prices tended to decline somewhat, but turned firm again as the month closed.

Following tendencies in Treasury bonds, the average yield on 3 to 5 year Treasury notes declined irregularly after June 11 (when a 1940 high of 0.86 per cent was recorded) and by the end of the month nearly half of the rise which occurred in May had been canceled.

The June 12 issue of Treasury bills was awarded at a price which yielded 0.118 per cent, the culmination of a steady increase from the virtually no-yield basis on which bills had been sold two months before. The issue dated June 19 was awarded at 0.095 per cent and that of June 26 at 0.046 per cent. This Treasury bill financing continued in the form of 91 day bills, in the amount of $100,000,000 a week, replacing similar maturities.

Commercial Paper and Bills

Limitations on the supply of paper continued during June to be the principal retarding influence on the activity of the open market for commercial paper, as bank investment demand generally continued unabated. The best grade material, when available, was again sold by dealers at ⅜ per cent, while average grade prime 4 to 6 month commercial paper continued to move at ½ and ⅝ per cent. Of all grades of paper which became available for resale, the major portion was sold at ½ per cent. The amount of paper outstanding through commercial paper dealers at the end of May was $234,200,000. This total, while about 2 per cent smaller than a month previous, was 24 per cent larger than a year ago.

Trading activity in the bill market was, if anything, even smaller than in preceding months. Dealers' rates remained unchanged. The total of bills outstanding decreased $9,000,000 during May to a new low point for many years, owing to declines in import and domestic warehouse credit bills which were only partially counterbalanced by an increase in export bills. The total in May was $33,000,000 below the May, 1939 volume owing to a contraction in bills arising from foreign trade transactions.

(Millions of dollars)

Type of acceptance	May 31, 1939	April 30, 1940	May 31, 1940
Import	82	86	79
Export	51	45	48
Domestic shipment	7	8	8
Domestic warehouse credit	29	38	33
Dollar exchange	19	13	12
Based on goods stored in or shipped between foreign countries	59	33	34
Total	247	223	214

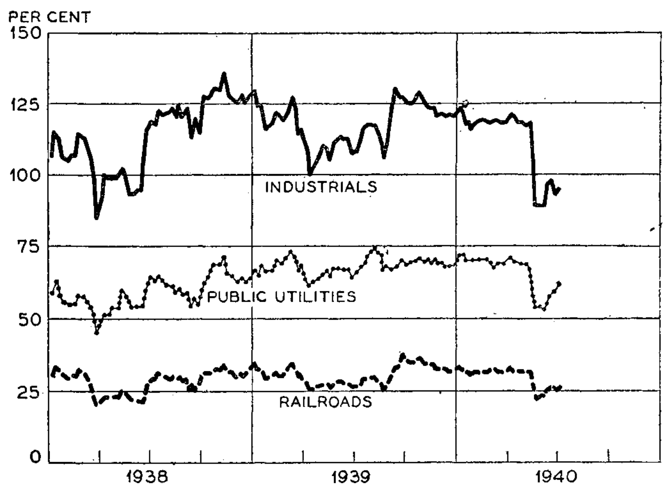
Security Markets

Accompanying the development of National defense plans and continuation of the revival in business activity—and despite Allied military disasters—domestic security prices showed recoveries in June from the low levels reached in May or the first part of June.

With respect to stock prices, the Standard Statistics Company 90 stock index on June 10 touched a new low for the year, slightly below the May low, and only 6 per cent above the bottom of the 1937-38 decline. Subsequently, however, as is indicated in the accompanying chart, utility issues recovered about 66 per cent of the May 9-June 10 decline; railroad shares regained 44 per cent and industrial stocks, 26 per cent. Trading on the New York Stock Exchange was dull during most of the month and exceeded 1,000,000 shares on only three days.

According to Moody's Investors Service Baa index, medium grade domestic corporate bond prices generally followed the stock price tendency during the month and tended to advance after June 10, the date of the Italian declaration of war. About one half of the May 9-June 10 decline had been recovered by June 29. The railroad bonds in this group made the best showing in the upward movement of the last three weeks of the month.

Prime grade corporate bonds, rated Aaa by Moody's Investors Service, rose irregularly throughout June and



Movements of Stock Prices (Standard Statistics Company daily indexes; 1926=100 per cent)

canceled about three fourths of the May recession. High grade industrial bonds showed relatively greater strength than the rail or utility issues. Municipal bond prices moved up appreciably in the two weeks ended June 26 after five weeks of hovering around the year's low.

New Financing

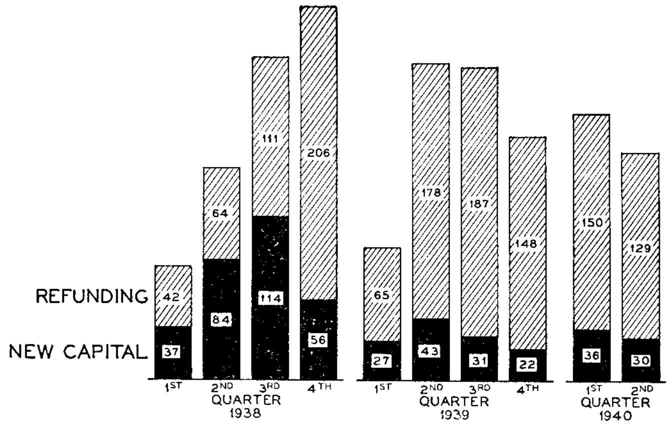
Despite gradual improvement in bond prices during the month of June, only three corporate issues were publicly offered, all in the latter half of the month, and two of these were for less than $1,000,000. Private placements of several corporate issues, however, raised the month's total of corporate new security issues to $106,000,000, while a slight increase over the previous month in the volume of municipal awards brought the aggregate of both classifications to $173,000,000. Corporate issues for new capital purposes declined to $8,000,000, the lowest level since January, 1939.

None of the corporate public offerings deferred during May was brought to market in June, although on June 24 a large corporate issue which had been in registry with the Securities and Exchange Commission since last fall was publicly offered. This flotation, $38,000,000 Jersey Central Power and Light Company 3½ per cent first mortgage refunding bonds, due in 1965, represented the first major corporate issue to be offered since the $75,000,000 United States Steel Corporation debentures on May 15. The bonds were priced at 102½ to yield about 3.35 per cent and were rated A by Moody's Investors Service. The largest of the private placements negotiated during the month was that of $46,000,000 Carolina Power and Light Company 3¾ per cent first mortgage bonds of 1965, sold to a group of insurance companies at 103½ to yield 3.54 per cent.

The largest municipal issue included in the month's total was $20,088,000 Metropolitan Water District of Southern California, Colorado River Water Works interim certificates (exchangeable for 4 per cent bonds) which were sold by the Reconstruction Finance Corporation to the Bank of America National Trust and Savings Association at 107½, at a price to yield about 3.58 per cent.

Awards of short term State and municipal obligations during June totaled $110,000,000 and included $35,600,000 Federal Intermediate Credit Bank 0.75 per cent three and seven month consolidated debentures and $23,800,000 New York City 1 per cent revenue bills averaging about twelve months' maturity.

As shown in the accompanying chart, new corporate security issues during the second quarter of this year declined somewhat from the previous quarter, to a monthly average of approximately $160,000,000. The volume of corporate issues for refunding and for new capital purposes declined proportionately, the latter to the 1939 monthly average of about $30,000,000. During the first half of 1940, a total of approximately $1,030,000,000 of corporate new security issues was floated, an increase of about 10 per cent over the same period in 1939.

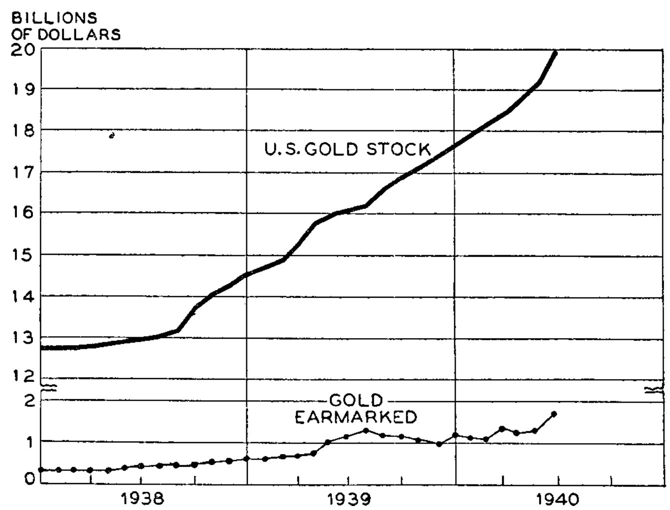


Monthly Average Volume of Domestic Corporate Security Issues for Refunding and for New Capital (In millions of dollars; second quarter 1940 data preliminary)

Gold Movements

Imports of gold into the United States were in very heavy volume during June. At the same time, the amount of gold held under earmark for foreign account at the Federal Reserve Banks increased about $440,000,000, and, as is shown in the accompanying chart, reached a new high figure of about $1,710,000,000 at the end of the month. During June, the gold stock of the United States increased about $755,000,000, the largest monthly gain on record, excluding the revaluation of the gold stock in 1934.

Gold imports into the United States during the four weeks ended June 19, as reported by the Department of Commerce, totaled $815,900,000, of which $693,800,000 came from Canada, $44,400,000 from the United Kingdom, $24,200,000 from South Africa, $7,600,000 from Switzerland, $7,200,000 from Yugoslavia, $6,600,000 from Australia, $5,900,000 from Spain, $3,900,000 from British India, $3,800,000 from Mexico, $3,700,000 from the Netherlands, $3,400,000 from Japan, $2,400,000 from Philippines, $2,100,000 from Portugal, $2,100,000 from Colombia, and $800,000 from Hong Kong. Also, during this period, $3,545,000 of gold was exported to Bolivia.



Gold Stock of the United States and Amount of Gold Held Under Earmark for Foreign Account at Federal Reserve Banks (End of month data; June, 1940, preliminary)

Foreign Exchanges

Several far reaching changes occurred in the structure of the New York foreign exchange market during June, primarily as the result of such technical factors as the imposition of new British regulations designed to eliminate much of the unofficial sterling market and the extension on June 17 of President Roosevelt's Executive Order "freezing" the accounts of the invaded European countries to cover all property in which France or any French "national" has any interest. The new British regulations, as announced on June 7, provided for a drastic curtailment of the supply of free-market sterling by the prohibition, at least for the time being, of security sales in the United Kingdom by nonresidents of the sterling-franc area and by the granting of dollars and Swiss francs at the official rate for current financial and commercial payments, including interest and dividends, to the United States and Switzerland. Furthermore, it was indicated that offerings of free-market sterling would also be reduced by the extension of bilateral payment agreements and the establishment of special sterling clearing accounts in countries outside the sterling and Allied areas (other than the United States and Switzerland). At the same time, the demand for unofficial sterling was reduced by the provision that all exports to the United States and Switzerland must be paid for in sterling obtained at the official London rate or in dollars or Swiss francs. It also appears that other commercial and financial payments made by residents of the United States and Switzerland to the United Kingdom will go through the official market. These measures were supplemented on subsequent days by various other regulations taken in the United Kingdom and the Empire countries, designed to tighten the British control over foreign exchange.

In anticipation of the restrictions issued on June 7, the free-market rate for sterling rose abruptly from the previous level of about $3.20 to as high as $3.87¼ on June 7, as domestic commercial concerns hastened to cover their commitments at the unofficial rate before such exchange became unavailable. Following the announcement of the new regulations, the pound rate continued to fluctuate erratically within the wide range of $3.50-$3.85¼. Some temporary weakness in the rate resulted from the Italian entry into the war and the French capitulation. A substantial recovery, however, began in the third week of June, when it was learned that the British authorities would temporarily take a liberal attitude toward the use of free-market sterling in payment for United Kingdom exports contracted for prior to June 8. This rise in the rate was greatly accentuated on June 27, accompanying the circulation of rumors of possible European peace overtures and also of possible new British measures to restrict further the scope of the free sterling market. On that day the rate appreciated 26½ cents to $4.01, only slightly below the official London rate and the best quotation since last October.

The New York market for the French franc became largely nominal toward the middle of June and trading was entirely suspended on June 17, when all French accounts were placed under the same control by the United States Treasury in effect for the assets of the other invaded countries.

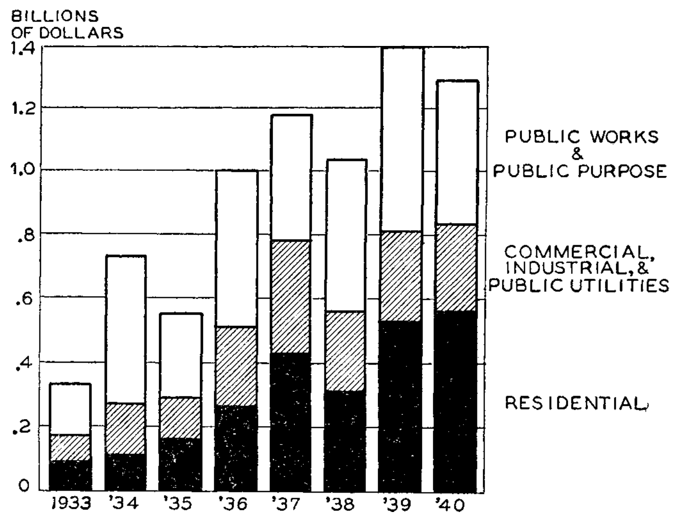
Following the virtual collapse of French resistance, a substantial demand developed for the Swiss franc in this market, presumably as the result of a repatriation of capital stimulated by the abatement of fears that Switzerland was in imminent danger of invasion. The Swiss rate, which had been maintained near the level of $0.2242 during recent months, appreciated to as high as $0.2267 on June 22, before easing somewhat to about $0.2264 at the end of the month.

Building

The intensification of European warfare had no apparent effect in May on the rate at which construction was undertaken in the 37 States covered by the F. W. Dodge Corporation reports, since there were no material changes from previous trends which could not be explained on the basis of seasonal factors. The daily average of all construction contracts awarded was slightly above the April figure, as a 20 per cent increase in public works awards more than offset contractions in other types of construction. For the first time this year, the daily rate of total awards rose above the level reported for the corresponding month of 1939. As in the two previous months, privately financed construction contracts in May accounted for almost two thirds of the total.

Residential building, as indicated by the daily rate of contracts, reached in May the highest point for that month since 1929. Commercial and industrial building continued substantially above a year ago. Extending the unfavorable comparisons of the preceding month, public utility construction awards in May were off 20 per cent from April and 49 per cent from May, 1939.

In the New York and Northern New Jersey area, large increases in the heavy engineering and public purpose building categories in May resulted in a 19 per cent rise over April in the daily rate of all contract awards.



Value of Construction Contracts Awarded in 37 States During First Five Months of 1933-40 (F. W. Dodge Corporation data)

Total construction awards in this area, however, were 8 per cent smaller than a year ago, owing to declines of 27 per cent and 22 per cent, respectively, in contracts for residential construction and public purpose building.

For the first five months of this year total construction awards in 37 States were 8 per cent below the value a year ago, as is indicated in the accompanying diagram, which shows the totals for the past eight years, classified into three major groups. Contracts for residential building in the first five months of this year showed some gain over the corresponding period of 1939, and were larger than the total for the comparable months of any year since 1929. Awards for private nonresidential construction (including industrial and commercial building, as well as public utility projects) were also slightly larger than in 1939, and, with the exception of 1937, compared favorably with other years since 1933. On the other hand, considerable curtailment occurred this year in public works projects and building for public purposes; awards for these types of construction showed a decrease of 24 per cent from the first five months of 1939.

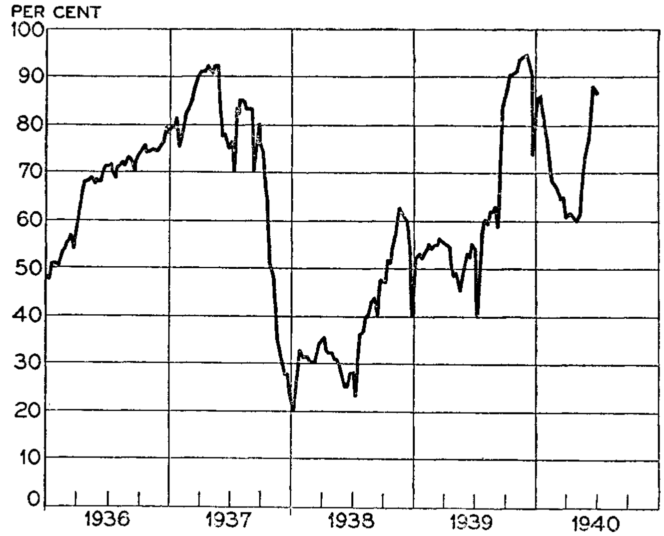
For the first three weeks of June, the daily rate of construction contract awards in the 37 States was slightly lower than in May, but 23 per cent above the corresponding weeks of June, 1939. The effect of decreases from the May averages in awards for residential and nonresidential buildings somewhat more than offset a moderate increase in the heavy engineering type of projects. Compared with the first three weeks in June of last year, substantial gains occurred in the categories of residential building and heavy engineering projects; nonresidential building awards showed a smaller increase.

Production and Trade

The revival of business activity, which was apparent in May, proceeded further during June. The news of the French request for an armistice led to some apprehension over possible cancellation of French orders which had been placed in this country, as well as over the prospects for American export trade in general, but the expressed desire of the British purchasing mission to assume French contracts, together with the United States National defense preparations, tended to counteract any immediate adverse effects on business activity.

The stimulation of business activity is perhaps most strikingly illustrated by the rapidity with which steel mill operations have been stepped up during the past two months. In response to an increasing demand for steel and steel products, from domestic as well as foreign sources, together with a larger volume of specifications against orders placed at the time of the temporary price reduction in April, the average rate of mill operations was expanded from about 60 per cent of capacity at the beginning of May to 87½ per cent in the week ended June 22, or to within 7 points of the high level reached last November. As the accompanying diagram indicates, the rise in steel mill activity in May and June was only a little less marked than in the period of rapid expansion which followed the outbreak of the war last fall.

Reflecting at least in part the influence of the National



Steel Mill Activity (Ingot output expressed as percentages of capacity; American Iron and Steel Institute data)

defense program, orders for textile goods increased sharply around the middle of June. Mill sales of cotton goods in the week ended June 15 were reported to have been the heaviest since last September and demand for woolen goods expanded markedly. Further evidence of a higher level of business activity in June is revealed in the weekly figures on railroad freight traffic, electric power production, and department store sales. Retail sales of automobiles rose substantially in the latter part of May and were maintained in the first part of June, after a temporary decline around the middle of May, and, although field stocks of cars were reported to be unusually high for this time of year, automobile manufacturers reduced their assemblies to only a small extent in June.

In May the general level of business activity reversed the downward course of the previous four months, reflecting chiefly increased activity in the heavy goods industries—induced by orders placed to replenish inventories, by brisk export demand and by defense preparations. The broad index of production and trade computed at this bank, which had declined from 95 per cent of estimated long term trend in December to 86 in April, rose to 88 in May. In May a year ago the index was 82.

Among the subordinate group indexes, the most pronounced gains occurred in the production of producers' durable goods, and in primary distribution. Demand for steel expanded considerably, and steel mill operations increased 18 per cent over April. Aircraft manufacturers, continuing to enlarge both productive facilities and output, apparently operated at close to double the rate of a year before. More or less steady acceleration likewise typified activity in shipyards and machine tool plants. A definite upturn in railway freight and truck loadings and enlarged traffic on inland waterways gave evidence of an increased flow of goods in primary trade channels. Retail trade, which had been somewhat retarded during the early spring partly because of unfavorable weather conditions, apparently continued at a level about 5 per cent below that of December, after allowance for seasonal factors.

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

	1939	1940		
	May	Mar.	Apr.	May
Index of Production and Trade†	82	88	86p	88p
Production of:				
Producers' durable goods	65	77	75p	80p
Producers' nondurable goods	83	92	91p	93p
Consumers' durable goods	58	72	68p	67p
Consumers' nondurable goods	92	95	94p	94p
Primary distribution	77	82	82p	85p
Distribution to consumer	90	93	91p	92p
Industrial Production				
Steel	59	73	71	86
Automobiles	59	86	80	75
Bituminous coal	50	85	101	99p
Crude petroleum	89	95	94	92p
Electric power	90	97	96p	97p
Cotton consumption	94	102	98	99
Wool consumption	97	94	73	88p
Shoes	101r	95	87	89p
Meat packing	96	103	101	101
Tobacco products	92	86	94	92
Employment				
Employment, manufacturing, U. S.	87	93	92	92p
Employee hours, manufacturing, U. S.	79	87	86	86p
Construction				
Residential building contracts	46	42	45	46
Nonresidential building and engineering contracts	55	46	56	53
Primary Distribution				
Car loadings, merchandise and misc. r	77	80	79	81
Car loadings, other r	66	79	84	91
Exports	91	101	100	103p
Imports	77	70	70	71p
Distribution to Consumer				
Department store sales, U. S. r	84	87	87	85
Chain grocery sales	98	97	96	96p
Other chain store sales	93	98	92	96p
Mail order house sales r	99	93	92	98
New passenger car registrations	68	89	84	80p
*Velocity of Deposits**				
Velocity of demand deposits, outside New York City (1919-25 average=100)	60	59	57	58
Velocity of demand deposits, New York City (1919-25 average=100)	32	26	27	26
*Cost of Living and Wages**				
Cost of living (1926 average=100)	82	83p	83p	83p
Wage rates (1926 average=100)	111	113p	114p	114p

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).

Employment and Payrolls

A slight decrease, of a seasonal character, occurred in New York State factory employment in May. Payrolls were maintained at the April level although a decline is usual at this time of year. Considerable additions to working forces were indicated for airplane factories and shipyards, and at plants engaged in the manufacture or repair of railroad equipment. More persons were also employed by manufacturers of chemicals, food products, construction materials, and paper and pulp. These gains, however, were somewhat more than offset by large seasonal losses in the important textile and apparel industries. Compared with May, 1939, total factory employment was 10 per cent higher, and payrolls were 14 per cent greater.

As the result of a net gain of approximately 240,000 persons between April and May, nonagricultural employment in the United States advanced to the highest level since the peak reached last December. Compared with May, 1939, there were about 1,000,000 more persons employed, although in that month a large number of coal miners were still temporarily out of work pending the signing of new wage agreements. Substantial increases in employment were reported in May for both public and private construction and for retail trade, but there was a net decline of 50,000 workers in manufacturing.

Factory employment and payrolls for the country as a whole followed much the same course as in New York State between April and May. There was a slight seasonal decrease in employment, while payrolls which usually show some decline in May, maintained approximately the April level. Rolls of workers in industries most directly stimulated by war orders and National defense preparations continued to grow, the largest gains being made by shipyards and plants producing aircraft, machine tools, and engines. In addition, manufacturers of building materials and food products increased their working forces seasonally. On the other hand, considerable seasonal slackening in employment in the textile, apparel, automobile, and fertilizer industries more than offset the gains that occurred in other lines. Total factory employment was 6½ per cent above the May, 1939 level, and payrolls were 13½ per cent greater.

Commodity Prices

Although quotations of some commodities declined during June to the lowest levels since last September, reflecting in part developments abroad, commodity prices generally moved within narrower ranges and net changes for the month as a whole were mixed. The Bureau of Labor Statistics index of 28 basic commodities was little changed from the level prevailing at the end of May.

On June 17 cash wheat at Kansas City, which had tended lower during the first half of the month, broke sharply to 76¾ cents a bushel as France requested an armistice. In subsequent days' trading prices declined irregularly and on June 29 reached a new low since August 31, 1939. The Government's estimate for the winter wheat crop, on the basis of June 1 conditions, was raised by 29,000,000 bushels to 489,000,000 bushels, which is still 13 per cent below last year's harvest. The spring wheat crop was estimated at 239,000,000 bushels, compared with 191,540,000 bushels produced last year. Prices were little affected by the removal of minimum price levels for grain futures on June 14 to facilitate the marketing of the new crops. Cash corn was little changed for the month as a whole, but livestock quotations showed slight increases.

The average price of cotton at ten Southern markets recovered all of the loss which occurred in May and by the end of June reached 10.42 cents a pound, ½ cent above the level on May 31. Wool tops in June rose 7 cents to $1.01 a pound, as sales were stimulated by the Army purchases of blankets and uniform cloth. The price of hides was also strengthened late in the month by inquiries in connection with the defense program. Rubber was little changed at 21½ cents a pound. Silk and sugar prices during the month, on the other hand, touched new lows since September.

The principal nonferrous metal markets were active and strong in the first few days of June, but gradually turned weaker as the month progressed. The easier undertone was first noted in the copper scrap and export markets, and custom smelters reduced their quotations 3/8 of a cent a pound during the course of the month, while primary producers retained their 11½ cent quotation. Zinc advanced another ¼ cent on June 3 to 6¼ cents a pound, a new 1940 high level, reflecting increased exports as a result of the disruption of Belgian and Dutch production by the German invasion. Tin reached 58¼ cents a pound on June 14, the highest level since last September, but reacted sharply following the French request for an armistice and showed a slight net loss for the month as a whole. The price of scrap steel at Pittsburgh continued to rise early in the month and on June 18 reached $20.75 a ton, the highest since last November. However, scrap steel quotations tended to react late in the month.

Foreign Trade

Both merchandise exports and imports of this country during May were in approximately the same amounts as in the previous month, despite the further expansion of the European war and its disruptive effects on international trade. Decreases from April in exports to countries involved in the war, Russia, and Japan, were offset by increases in exports to a number of other areas. Compared with May, 1939, total exports from the United States, at $325,000,000, were 30 per cent larger, while imports, at $211,000,000, showed a much smaller gain. The excess of exports of $114,000,000, though somewhat less than in the earlier months of 1940, was larger than the export balance in May of any other year since 1921.

As has generally been the case since the outbreak of the European war, such increases as occurred in exports during May were largely in wholly and partly finished goods, including aircraft, iron and steel products, nonferrous metals, and chemicals. Exports of paper also showed large increases over both the previous month and a year ago, owing to the diversion of Latin American demand from the now closed Scandinavian markets. Among crude materials, shipments of coal were exceptionally large, on account of increased exports to Canada; tobacco exports also showed material gains over both the previous month and a year ago, contrary to recent tendencies. Shipments of raw cotton were again unusually large compared with a year ago, but seasonally smaller than in April. Foreign demand for crude petroleum and gasoline was well below the levels of a year ago, but somewhat larger than in April. Exports of foodstuffs were at unusually low levels.

Imports during May of all the major classifications except finished manufactures showed some gain over a year ago, and all except crude material imports were larger than in April. Receipts of finished manufactures were reduced 10 per cent from May, 1939, but gained an equal percentage over April. Crude material imports were 14 per cent above the value of a year ago, though 9 per cent smaller than in the previous month; crude rubber and wool imports continued to show dollar gains over a year previous but were reduced 28 per cent and 15 per cent, respectively, from the April values. Imports of raw silk, while smaller in quantity than in May of last year, showed increases in value compared with both the previous month and a year ago. Substantial increases in value over April and a year ago were reported in burlap imports. Receipts of copper, nickel, tin, and sugar showed increases over the May, 1939 figures, but little or no change compared with April. Decreases from a year ago were recorded in imports of diamonds, woodpulp, and a variety of foreign manufactures, including works of art and machinery.

Department Store Trade

For the three weeks ended June 22, total sales of the reporting department stores in this District were about 6½ per cent higher than in the corresponding 1939 period, and the daily rate of sales for this portion of June was considerably above the May average, whereas ordinarily not much change occurs at this time of year.

In May, total sales of the reporting department stores in this District were about 1 per cent higher than in May, 1939, but the daily rate of sales showed somewhat less than the expected seasonal advance from April. Sales of the leading apparel stores were about 5½ per cent lower than in May, 1939.

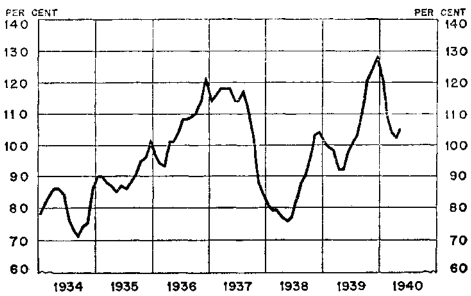
Stocks of merchandise on hand in the department stores, at retail valuation, were approximately 1½ per cent higher at the end of May than a year ago, a somewhat smaller year-to-year advance than in the past three months; apparel store stocks continued lower than a year ago. Collections during May were at a somewhat lower rate than in 1939, in both the department and the apparel stores.

Locality	Percentage change May, 1940 compared with May, 1939		Per cent of accounts outstanding April 30 collected in May	
	Net sales	Stock on hand end of month	1939	1940
New York and Brooklyn	— 1.2	+ 0.2	48.4	48.4
Buffalo	+ 6.1	+ 1.7	45.7	43.8
Rochester	+ 5.3	+ 2.4	56.7	55.2
Syracuse	+13.7	+ 4.4	40.0	40.1
Northern New Jersey	+ 3.7	+ 6.3	40.8	35.9
Bridgeport	— 0.2	+ 2.7	41.1	40.9
Elsewhere	+ 4.0	+ 3.6	34.2	35.2
Northern New York State	+18.4	......	....	....
Southern New York State	+ 6.4	......	....	....
Central New York State	+10.0	......	....	....
Hudson River Valley District	— 3.6	......	....	....
Westchester and Stamford	— 0.6	......	....	....
Niagara Falls	+12.6	......	....	....
All department stores	+ 0.8	+ 1.4	45.7	44.1
Apparel stores	— 5.4	— 5.7	45.6	44.6

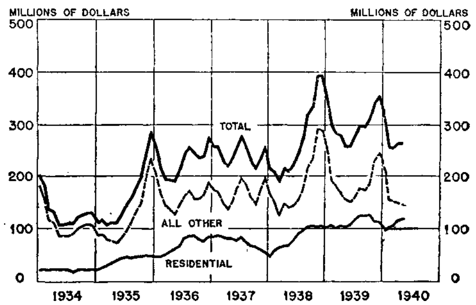
Indexes of Department Store Sales and Stocks, Second Federal Reserve District (1923-25 average = 100)

	1939	1940		
	May	Mar.	Apr.	May
Sales (average daily), unadjusted	84r	82	83	85
Sales (average daily), seasonally adjusted	88	89	90	88
Stocks, unadjusted	78	80	80	79
Stocks, seasonally adjusted	76	79	78	77

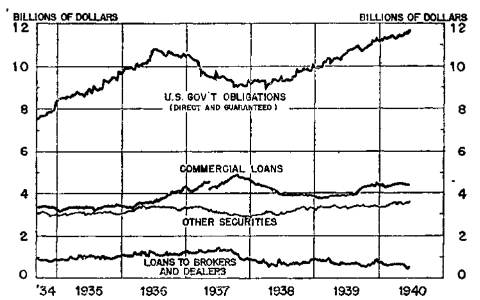
r Revised



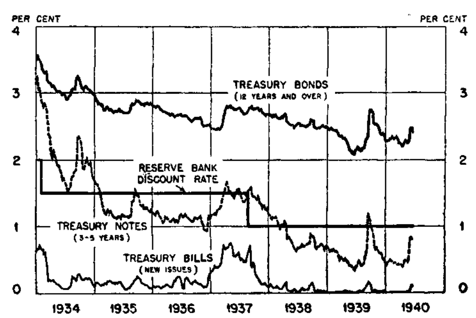
Index of Physical Volume of Industrial Production, Adjusted for Seasonal Variation (1923-25 average=100 per cent)



Value of Construction Contracts Awarded (Three month moving averages of F. W. Dodge Corporation data for 37 States, adjusted for seasonal variation)



Wednesday Figures for Reporting Member Banks in 101 Leading Cities (Latest figures are for June 12)



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 increased considerably in May and the first half of June, while prices of commodities and securities declined sharply in the middle of May and fluctuated near the lower levels after that time. Distribution of commodities to consumers was maintained at levels prevailing earlier this year.

Production

Volume of industrial production increased in May and the Board's seasonally adjusted index advanced from 102 to 105. The rise in May reflected chiefly sharp increases in activity at steel mills and woolen mills. Steel production in May was at about 71 per cent of capacity, as compared with 60 in April, and by the third week of June activity had risen further to 88 per cent. Lumber production also increased. In the automobile industry, where output had been at a high rate in the first four months of the year, dealers' stocks were in large volume and production was curtailed in May and the first half of June. Retail sales of automobiles continued at a high level during most of May, although in the middle of the month a temporary sharp reduction was reported.

In the woolen textile industry activity in May rose sharply from the low level reached in April. At cotton mills activity was maintained at about the rate prevailing in March and April and was somewhat lower than in the early months of the year. Rayon production continued large, while mill takings of raw silk declined to the lowest level in nearly twenty years. In other industries producing nondurable manufactures activity generally showed little change from April to May.

Coal production in May continued at a high level for this time of the year, reflecting in part increased exports and unusually large shipments of coal to Upper Lake ports. Iron ore shipments down the Lakes were also large for this season. Petroleum production in May declined somewhat from the high rate maintained in March and April.

Value of construction contract awards increased further in May, according to figures of the F. W. Dodge Corporation, reflecting principally continued growth of private building. Private residential contracts rose to the highest level in the past 10 years. Awards for commercial buildings advanced somewhat further while those for factory construction continued at about the level reached in April. Both were considerably larger than a year ago. Contracts for public construction increased slightly in May but were about one-sixth lower than a year earlier.

Distribution

Department store sales in May declined from the level prevailing in the past three months, while sales at variety stores and mail order houses were largely maintained at earlier levels. In the first week of June department store sales increased considerably.

Volume of railroad freight traffic increased in May, reflecting larger shipments of miscellaneous merchandise, coal, and forest products. Loadings of grains declined.

Foreign Trade

Total exports of United States merchandise showed little change from April to May. Increases were reported in shipments to Canada and Australia and to Italy and Finland, while exports to other European nations showed declines. Exports of industrial machinery in May declined somewhat from the high level reached in April, while exports of steel, copper, chemicals, and commercial vehicles increased, following declines in the previous month. Coal shipments, largely to Canada, rose to the highest level in recent years. Cotton exports continued to decline from the high level of last winter.

The monetary gold stock of the United States increased by $439,000,000 in May and by $250,000,000 in the first two weeks of June.

Commodity Prices

Following a general decline in basic commodity prices around the middle of May, prices of industrial materials, particularly steel scrap, zinc, tin, and wool, advanced and by the middle of June were in some instances above the levels of early May. Raw cotton prices also increased, and in the second week of June prices of cotton gray goods likewise advanced as sales of these goods were in exceptionally large volume. Prices of a number of foodstuffs continued to decline.

Bank Credit

Total loans and investments at reporting member banks in 101 leading cities showed little net change during the four weeks ended June 5. Holdings of United States Government obligations increased further at New York City banks, while loans to security brokers and dealers declined considerably. Deposits and reserves of member banks continued to increase sharply as a result mainly of heavy gold imports.

Government Security Market

Prices of Government securities held relatively steady during the latter part of May and the first part of June, after a reaction at the time of the invasion of Belgium and Holland. Subsequently prices increased sharply, and on June 15 the yield on the 1960-1965 bonds was 2.40 per cent, compared with 2.52 per cent on June 10 and 2.26 per cent at this year's peak in prices on April 2.