

MONTHLY REVIEW

of Credit and Business Conditions

Second Federal Reserve District

Federal Reserve Bank, New York

September 1, 1940

Money Market in August

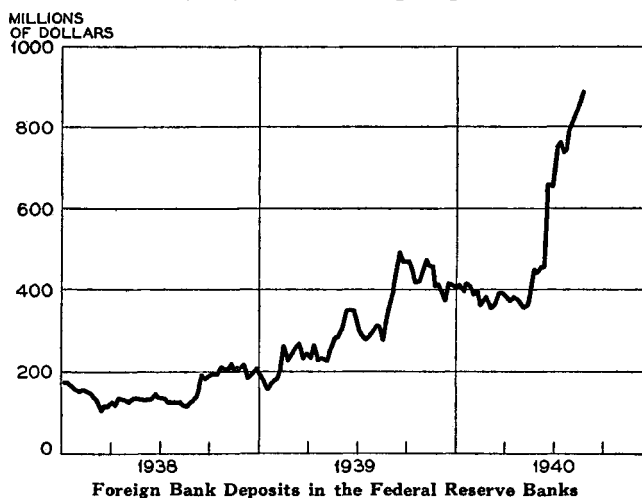
The money market continued to show a considerable degree of day-to-day stability during the past month. The immediate influence of war developments appears to have diminished, and the financing of the National defense program has not yet become an important factor in the demand for market funds. The security markets were temporarily depressed by the intensification of war activities during the second week of the month, but the recession in prices was quite moderate and was due largely to a temporary cessation of buying except at declining prices, rather than to any considerable volume of selling. Late in the month security prices advanced to the best levels of the June-August recovery.

The temporary reduction in excess reserves of member banks, which was noted in the latter part of July, was extended further in the first week of August, but was without apparent effect on the money market. The upward movement of excess reserves was resumed during the last three weeks of the month. For all member banks the volume of excess reserves on August 7 was \$550,000,000 below the peak of July 17, chiefly as a result of a substantial increase in Treasury deposits in Federal Reserve Banks. The increase in Treasury deposits was due to cash payments for the Treasury bond issue of July 22 and the Commodity Credit Corporation notes issued on August 1, and to collections of social security and capital stock taxes, which combined substantially exceeded Government disbursements during that period. In addition, the volume of currency in circulation showed the beginning of the seasonal rise during this period, and was a minor factor in the reduction in bank reserves. In the following three weeks, member bank excess reserves rose \$160,000,000, despite a further rise in the amount of currency in circulation to new high levels.

The principal factor tending to cause further expansion in member bank reserves during recent weeks has been the disbursement of dollars derived from sales of foreign gold to the United States and passing through foreign official accounts at the Reserve Banks. Gold imports, while at a less rapid rate than in the period from the middle of May to the middle of July, were substantial during August and included shipments from a wide variety of sources. In addition, moderate amounts of gold were released from earmarked accounts at this bank and sold to the Treasury. Consequently, the rise in this country's gold stock during the past month continued at an average rate of about \$100,000,000 a week.

What may be a significant change appears to have developed during the past three months in the relation between foreign sales of gold to the Treasury and foreign official balances at the Reserve Banks. During the first nine months of the war such sales of gold appear to have been related chiefly to current demands for dollar exchange and foreign official balances tended to decline. During the more recent months, however, substantial amounts of the proceeds of these sales of gold have remained in deposit accounts in the Reserve Banks and increased the total volume of such deposits to record levels. As the accompanying chart shows, the foreign central bank deposits in the Federal Reserve Banks have increased from less than \$360,000,000 on May 1, 1940, to \$888,000,000 on August 28, 1940. And this rise is not the full measure of the growth in foreign official funds in this country, as some foreign central banks maintain deposit accounts in commercial banks here, and foreign governments also have deposits in American banks.

The growth of foreign official funds in the United States during the past three years has been closely related to developments in Europe, as the chart indicates. The first material increase occurred around the time of the "Munich" crisis in September, 1938, and was followed by a further rise at the time of the Czechoslovakian crisis in the spring of 1939. The outbreak of the war was followed by a further rapid accumulation of foreign central bank balances here in September, 1939, the volume at that time rising by approximately \$150,000,000 to nearly \$500,000,000. A gradual recession to around \$360,000,000 in the spring of 1940 ensued,



chiefly as the result of payments on contracts for war materials. The invasion of the Netherlands and Belgium in May brought a renewed rise in foreign central bank deposits in the Reserve Banks, which has since been rapidly extended.

The accumulation of official foreign deposits in this country has been accomplished largely by shipments of gold to the United States and its sale to the Treasury, either immediately or after earmarking for a time at this bank. In addition, governmental requisitioning of American deposits and American securities, owned by residents of several countries involved in the war, and the sale of some part of the securities, have involved transfers of private foreign funds in this country to official foreign deposits in the Reserve Banks. Some of these official deposits apparently have represented funds accumulated by belligerents in anticipation of payments for war materials or other supplies purchased here, while some represent monetary reserves of foreign countries, which have been transferred to the United States for safekeeping, and remain largely inactive. Part of the large volume of foreign deposits now held by the Reserve Banks, of course, represents funds of central banks of invaded countries, which have been immobilized by the President's Executive Order blocking those countries' funds which are on deposit in the United States.

To the extent that foreign official funds have accumulated in deposit accounts in the Reserve Banks, they represent a partial offset to the unprecedented inflow of gold which has occurred since the outbreak of the war. In effect, they represent that part of the proceeds of gold sales to the Treasury which has not been paid out into the market and thus added to the commercial bank reserves of this country. The major part of the proceeds of the gold inflow has moved into the banking system, however, since the United States gold stock has risen by more than \$4,200,000,000 during the past year, and the increase in foreign official funds on deposit here has been something less than one seventh of that amount.

MEMBER BANK CREDIT

Changes in the loans and investments of weekly reporting member banks during the four weeks ended August 21 reflected chiefly purchases of Treasury bonds on July 22 and Commodity Credit Corporation notes on August 1. While the reporting banks acquired sub-

stantial amounts of both issues, however, there are indications that the Treasury bond issue, especially, was rather widely distributed. In the week in which \$630,000,000 of these bonds were allotted, holdings of Treasury bonds by the reporting banks increased less than \$200,000,000, but deposits held for other domestic banks were reduced \$220,000,000 in that week, apparently reflecting substantial allotments of the bonds to other banking institutions and their customers. In the week ended August 7, in which the Commodity Credit Corporation notes were issued, holdings of Government guaranteed securities by all reporting banks increased about \$150,000,000, as compared with a total issue of about \$289,000,000. Demand deposits in the reporting banks in that week showed a substantial reduction, part of which may have reflected the purchase of part of the note issue by large depositors of the reporting banks.

Commercial and industrial loans in these banks, after showing an unusually early increase during June and the first part of July, subsequently have shown only irregular fluctuations during the weeks in which a seasonal expansion in such loans ordinarily gets under way. Some further increase in the volume of business loans has been reported by banks in other localities in recent weeks, but in New York City banks repayments of such loans exceeded new loans by approximately \$22,000,000 in the four weeks ended August 21. Loans on securities, after showing some small increase during July, receded again in August, and in general remained at about the lowest levels in many years.

GOVERNMENT SECURITIES

During August prices of Treasury bonds fluctuated narrowly at relatively high levels. The price range for long term Treasury bonds amounted to only $\frac{7}{8}$ of a point and for intermediate term Treasury bonds to $\frac{3}{4}$ of a point. Early in the month the average price of the long term bonds advanced slightly further to reach a new recovery peak on August 5 within $1\frac{3}{8}$ points of the year's high reached early in April. However, in the succeeding period through August 14 prices weakened on news that first Italy and then Germany were intensifying their war efforts against the British, but after a short period of hesitation these issues moved upward again to the best levels since early in May. The movement of intermediate term Treasury bonds was roughly similar, although they did not break through their July highs.

Treasury note prices declined slightly in the middle of the month but later advanced to above the July high. The average yield on 3 to 5 year Treasury notes ended the month at 0.51 per cent, as compared with a high of 0.60 per cent on August 13 and a low of 0.54 per cent in the first part of July.

The average rates at which the new issues of Treasury bills were sold advanced slightly during the past month. The issue dated August 28 was awarded at an average rate of 0.028 per cent, the highest level since the issue dated June 26. Each of the weekly issues of bills was in the amount of \$100,000,000, of 91 day term, and replaced similar maturities.

Total allotments with respect to subscriptions to the

Money Rates in New York

	Aug. 31, 1939	July 31, 1940	Aug. 30, 1940
Stock Exchange call loans.....	1	1	1
Stock Exchange 90 day loans.....	* $1\frac{1}{4}$	* $1\frac{1}{4}$	* $1\frac{1}{4}$
Prime commercial paper 4-6 months...	$\frac{1}{2}$ - $\frac{5}{8}$	$\frac{1}{2}$ - $\frac{5}{8}$	$\frac{1}{2}$ - $\frac{5}{8}$
Bills—90 day undorsed.....	$\frac{1}{16}$	$\frac{1}{16}$	$\frac{1}{16}$
Average yield on Treasury notes (3-5 years).....	0.64	0.58	0.51
Average yield on Treasury bonds (not callable within 12 years).....	2.30	2.29	2.27
Average rate on latest Treasury bill sale 91 day issue.....	0.076	0.004	0.028
Federal Reserve Bank of New York discount rate.....	1	1	1
Federal Reserve Bank of New York buying rate for 90 day indorsed bills	$\frac{1}{2}$	$\frac{1}{2}$	$\frac{1}{2}$

* Nominal

offering of Commodity Credit Corporation $\frac{3}{4}$ per cent notes, dated August 1, 1940, and maturing May 1, 1943, amounted to \$289,458,000 (of which \$143,436,000 was allotted in the Second District). Total subscriptions received amounted to \$3,185,206,000.

COMMERCIAL PAPER AND BILLS

The amount of commercial paper received by dealers for distribution in the open market during August continued to be less than the investment demand. No change was reported in rates. The choicest paper, which became available in some volume during the first part of the month, was sold at $\frac{3}{8}$ per cent, and the average run of prime 4 to 6 month notes was sold at $\frac{1}{2}$ and $\frac{5}{8}$ per cent, principally at $\frac{1}{2}$ per cent. Paper outstanding through commercial paper concerns reporting to this bank amounted to \$232,400,000 at the end of July. A month ago outstandings totaled \$224,100,000 and a year ago \$194,200,000.

Bankers acceptances continued to change hands in only limited volume during August, and dealers' rates remained unchanged. A further decline of \$18,000,000 for July in the total of outstanding bankers bills was accounted for chiefly by a decrease in export bills. Compared with a year ago, the drop of \$48,000,000 was attributable in large measure to a reduction in the amount of bills based on goods stored in or shipped between foreign countries.

Security Markets

The security markets continued very inactive during August and price movements were again within narrow limits. On the New York Stock Exchange, trading in stocks declined to as low as 130,000 shares for a full day, a new low since August, 1916. On most other days turnover was between 200,000 and 300,000 shares. Movements of the average level of stock prices were within a range of 6 per cent from low to high, according to the Standard Statistics Company daily index. The first twelve days of the month witnessed a small, irregular advance in industrial shares to slightly higher levels than were reached in June or July, but the intensification of aerial warfare over Great Britain was followed by a moderate recession in prices through August 16, from which there was a recovery to mid-May levels. Railroad stock prices also advanced late in August to the best level since early May, but public utility shares showed a small net decline for the month.

Medium grade corporation bonds showed a small net rise during August, according to Moody's average of Baa bonds. Some further extension of the June-July advance occurred during the first few days of the month, and after a decline in the middle of the month prices moved up to a new recovery high on August 30. Railroad bonds of this grade showed a net decline of about $\frac{3}{8}$ of a point between the end of July and the end of August, while Baa industrial issues moved about $1\frac{1}{8}$ points higher; public utility bonds of Baa grade were steady.

High grade corporation bonds, however, registered a further net recovery during August, although they, too,

were subject to some easing in the middle of the month. At the close of August the average price of Moody's Aaa bonds was $\frac{3}{4}$ of a point higher than at the end of July and within 1 point of the record high reached in early April of this year. High grade municipal bonds advanced to new highs in the first week of August, but then reacted moderately.

New Financing

During August, \$198,000,000 of corporate and municipal new security issues were floated. The smaller volume than in July was due chiefly to a decline in corporate issues to \$132,000,000, of which \$46,000,000 represented funds to be used for new capital purposes. Municipal awards amounted to \$66,000,000. Among the influences which operated to reduce the volume of new issues, the following have been mentioned: uncertainties regarding the outcome of the current phase of the war, delay in the enactment of excess profits tax and plant amortization legislation by the Congress, the commitment by the Reconstruction Finance Corporation for substantial loans to industry for National defense purposes, and the expectation that with the passage of enabling legislation the Securities and Exchange Commission would shorten, in some cases, the twenty day waiting period heretofore required between registration and offering of new security issues.

The two largest corporate issues offered during the month were \$25,000,000 Celanese Corporation of America debentures and \$22,150,000 Carolina, Clinchfield and Ohio Railway bonds, the latter the first major financing for a railroad since last April. Toward the end of August, most of the securities marketed during the month were quoted either close to the offering prices or at slight discounts. At least \$35,000,000 of new corporate issues are known to have been sold privately to insurance companies and are therefore included in the above totals. Additional amounts of financing, in the form of serial loans, were arranged with banks.

Short term municipal financing, excluded from the \$198,000,000 total, amounted to \$100,000,000 and included \$45,000,000 New York City 0.35 per cent revenue bills and \$26,000,000 Federal Intermediate Credit Bank 0.75 per cent debentures.

Statements recently filed with regulatory authorities indicate the following forthcoming issues: \$29,000,000 Columbus and Southern Ohio Electric Company bonds, \$16,500,000 San Antonio Public Service Company bonds, and \$25,000,000 Dow Chemical Company securities. In addition to these issues, which appear to be scheduled for public offering, a number of sizable private sales are reported to be in process of negotiation, including \$12,600,000 Iowa Electric Light and Power Company bonds and \$16,000,000 of San Diego Consolidated Gas and Electric Company bonds.

Loan authorizations for National defense, made by the Reconstruction Finance Corporation through August 14 were reported to have aggregated \$283,000,000, an amount almost five times as large as the total of corporate security issues for new capital purposes floated during the period July 1 to August 14.

Business Profits

For the second quarter of 1940, this bank's seasonally adjusted index of the net profits of 168 industrial and mercantile corporations declined rather sharply owing mainly to a decrease in the net profits of the automotive industry at a time when a rise is usual. Reported net profits of many concerns, and especially those of the largest automobile manufacturer, were reduced during this period by the setting up of reserves in order to make provision for the increased rate of taxation applicable to this year's earnings under the Revenue Act of 1940, and also to cover the contingency of additional taxes being levied upon 1940 profits. In addition, industrial production, after allowance for seasonal changes, averaged slightly lower in the second quarter than in the first.

Second quarter net profits in each year back to 1937 for 401 industrial and mercantile corporations are summarized in the accompanying table. In the aggregate, net profits of these concerns were about 45 per cent larger than in the corresponding period a year ago, though they still remained some 23 per cent less than in 1937. With respect to changes among the individual companies, an analysis indicates that 59 per cent of the total number had higher profits during the second quarter of this year than in the corresponding period a year ago, and an additional 9 per cent, which had operated at a loss in the second quarter of last year, had some net profits this year. However, 23 per cent had smaller profits than a year ago, and there were still 9 per cent of the total that reported losses.

Of the various groups of companies listed in the table, a large number showed sizable gains in aggregate net profits when compared with the second quarter of 1939. In addition, the coal mining group had aggregate net profits this year whereas last year's operations had resulted in an aggregate deficit. Prominent among those groups showing gains was the steel group, for which second quarter profits, owing to the relatively high level of production and the consequent lowering of per unit costs, were substantially larger than in 1939. Export business and to some extent orders for the rearmament program of this country were reflected in sharp gains among the aviation and machinery companies. Aggregate net profits of manufacturers of paper and paper products also increased substantially over last year, as the cutting off of Scandinavian supplies resulted in an expansion in demand. By way of contrast, foreign revenues of motion picture companies contracted because of the spread of the war, and net profits of this group declined somewhat from last year's level. Other groups that had smaller net profits than a year before were advertising, printing and publishing, bakery products, confectionery, and gold mining.

Net profits of 558 industrial and mercantile corporations reporting for the first six months were 50 per cent higher than a year before, but were 16 per cent less than in the corresponding period of 1937. With respect to those concerns which do not generally report on a quarterly basis, the textile and apparel, and retail trade groups showed increases in profits over the comparable period of 1939, while the aggregate net profits of the

rubber and tire group were somewhat lower. Compared with the first six months of 1937, the aviation, paper and paper products, cigar, and all the food and food products groups showed higher profits.

Class I railroads reported second quarter net income (after all charges) amounting to \$1,600,000, as compared with an aggregate deficit in the same period of 1939 of \$47,200,000. For the first six months, the deficit of the Class I railroads amounted to \$12,000,000 as compared with a \$90,000,000 deficit in 1939 and a \$180,000,000 deficit in 1938. Net income of 68 public utilities excluding telephone companies, was moderately larger for both the second quarter and the first six months, than in the corresponding 1939 periods, and for the six months was also somewhat larger than in the comparable period of 1937. Net operating income of telephone companies, both for the second quarter and the first half was larger than in 1937, 1938, or 1939.

(Net profits in millions of dollars)

Corporation group	Second quarter				First six months			
	1937	1938	1939	1940	1937	1938	1939	1940
Advertising, printing and publishing...	4.1	2.4	3.7	3.6	9.1	5.5	6.7	7.6
Automobiles...	88.8	23.2	61.2	64.3	150.0	26.9	125.2	149.0
Automobile parts and accessories...	19.9	1.3	9.7	17.0	38.5	3.3	21.7	37.2
Aviation...	2.1	4.7	6.1	14.7	2.5	6.7	11.5	25.0
Building supplies...	19.8	3.0	9.3	14.2	40.1	4.7	17.1	27.0
Chemicals and drugs	48.3	22.7	35.5	43.4	97.3	47.0	71.3	94.5
Containers (metal and glass)...	2.1	1.3	2.1	2.4	4.0	2.5	3.4	3.8
Electrical equipment	27.5	9.3	15.3	24.5	51.7	19.4	27.6	46.5
Food products:								
Bakery...	5.0	5.6	5.7	4.8	8.8	10.2	10.6	9.3
Beverages...	12.8	11.2	11.3	13.0	22.1	19.7	20.8	23.1
Confectionery...	4.7	4.1	5.0	4.5	9.2	8.4	10.3	10.2
Other food products...	14.5	12.6	14.2	16.4	34.9	30.7	34.4	36.7
Household equipment...	4.8	1.1	2.4	2.8	17.4	2.2	9.9	9.7
Leather and shoes...					6.1	1.0	3.9	3.9
Machinery and tools	18.9	4.3	7.0	13.1	40.5	11.5	14.6	29.8
Metal products—miscellaneous...	4.1	0.3	1.5	3.0	11.1	0.5	3.6	7.2
Mining:								
Coal...	1.0	3.3	1.7	0.3	0.2	5.0	2.4	1.6
Copper...	12.8	2.0	4.6	7.1	57.1	17.2	23.2	50.2
Gold and silver...	6.4	5.2	5.1	4.6	20.2	16.9	16.8	16.3
Other mining...	20.0	7.2	9.9	11.5	42.1	17.9	22.8	27.8
Motion pictures...	9.3	4.9	5.5	3.9	33.1	19.8	21.8	22.1
Office equipment...	7.0	3.8	3.3	3.7	13.8	8.4	8.1	9.7
Paper and paper products...	8.1	1.0	1.7	9.2	15.9	4.0	4.6	18.4
Petroleum...	47.0	28.6	17.9	26.1	160.6	100.4	62.8	109.5
Railroad equipment...	10.9	1.6	2.2	5.4	25.5	1.9	3.6	17.6
Retail trade...					35.4	16.2	29.5	33.0
Rubber and tires...					22.5	2.9	16.1	13.5
Steel...	73.0	10.4	11.7	48.1	149.4	16.8	25.1	98.8
Textiles and apparel					16.2	7.1	7.5	11.6
Tobacco (cigars)...	0.5	0.6	0.8	0.9	0.8	0.9	1.2	1.6
Miscellaneous...	1.4	0	1.1	2.1	2.7	0.2	1.9	3.0
Total								
401 cos. 2nd quar.	472.8	141.9	252.1	364.6	1,138.4	364.2	635.2	955.2
558 cos. 1st half..								
137 Class I railroads, net income...	23.5	74.3	47.2	1.6	38.9	180.0	90.0	12.0
94 Telephone companies, net operating income...	58.6	52.8	60.7	61.9	118.9	102.8	117.3	124.4
68 Other public utilities, net income...	69.1	57.2	66.8	68.3	143.0	123.4	141.2	152.7

— Deficit.

Foreign Exchanges

The New York free market for the pound sterling seems to have virtually disappeared during the past month as the result of the progressive drying up of the

supply of sterling balances which had been held in American accounts before the July restrictive British regulations became effective on July 18. After ending July at \$3.83¼, the pound rate continued to advance irregularly during the first half of August under the stimulus of a covering demand and touched a high of \$4.03½ on August 16. The free rate had thus, for the first time since October, 1939, reached parity with the official rate at which the British authorities supply sterling against dollars. During the latter part of the month, the free rate for the pound fluctuated narrowly around the official rates, holding within a range of \$4.00-\$4.03¼.

At the beginning of the war, the British inaugurated exchange control and fixed official buying and selling rates for the dollar, and at that time the New York sterling rate became distinct from the London rate. The free market in sterling was at first supplied primarily by withdrawals of existing foreign owned balances from London and the proceeds of imports into the sterling area which were paid for in sterling which could not be converted into other currencies through the official London market. Sales of foreign held sterling securities, no doubt, were also an important factor in the supply in the free market during the early months of the war. Despite a temporary reaction to as low as \$3.75 in September, 1939, accompanying some downward revision of the official buying rate for dollars, the free rate fluctuated fairly close to the official level during the first six months of the war, since foreigners were able to use free-market sterling in payment for exports from the sterling area. By means of new exchange regulations imposed on March 8, 1940 (and somewhat reenforced on June 8), the British authorities took steps to eliminate this possibility and as a result of this reduction in the demand for free-market sterling, together with the psychological reaction to the German military successes in Europe, New York quotations for the pound dropped to an all-time low of \$3.00 on May 10. Subsequent restrictions on the supply of unofficial sterling in this market, however, particularly as the result of the regulations, effective July 18, finally were instrumental in strengthening the free rate to a level more or less in line with the official rates quoted by the Bank of England.

On August 21 a further measure was taken by the British authorities, presumably for the purpose of tightening the exchange control and preventing the redemption of British currency held in the occupied territories of Europe. Subject to certain exemptions, British bank notes may no longer be imported into the United Kingdom. Bank of England notes are now quoted in this market at about \$2.90.

Swiss exchange appeared to have continued in demand throughout the greater part of August. On August 12 the rate for the Swiss franc was allowed to appreciate from \$0.2274 to about \$0.2279, near which level it has subsequently remained. The Canadian dollar, which showed a firm tendency in the market during June and July, held steady during most of the past month at a discount of around 13 per cent.

Among the Latin American exchanges, the Cuban peso weakened somewhat in terms of the dollar during the

past month and the Mexican peso, which firmed to about \$0.2030 in July, moved irregularly lower to about \$0.2006 at the end of August.

Gold Movements

Imports of gold into the United States declined further during August from the peak reached in June, but still continued in substantial volume. Gold held under earmark for foreign account at the Federal Reserve Banks decreased about \$60,000,000 during the month to a total of about \$1,700,000,000 at the end of August. The gold stock of the United States increased about \$450,000,000 during the month.

As reported by the Department of Commerce, a total of \$320,500,000 of gold was imported in the four weeks ended August 21. Of this amount, \$213,100,000 came from Canada, \$50,600,000 from the United Kingdom, \$11,500,000 from Portugal, \$10,100,000 from South Africa, \$8,300,000 from Colombia, \$4,600,000 from Brazil, \$4,300,000 from the Netherlands Indies, \$3,600,000 from Sweden, \$3,200,000 from Mexico, \$2,900,000 from the Philippines, \$2,700,000 from Hong Kong, \$700,000 from Peru, and \$700,000 from British India.

Central Bank Rate Changes

According to a recently published report, the Reserve Bank of New Zealand lowered its discount rate from 3 per cent to 2 per cent on May 27. The higher rate had been in force since September 6, 1939.

Employment and Payrolls

During July, working forces and payrolls of New York State factories rose somewhat above the June levels, contrary to the usual seasonal tendency. Further employment increases were reported in the shipbuilding, aircraft, metal working, and machinery industries, which have been particularly stimulated by war and National defense orders, and manufacturers of textiles and men's clothing also employed more workers than in June. The largest gain occurred at the seasonally active canning and preserving plants which, as usual, more than doubled their working forces between June and July. Women's apparel firms, however, continued their seasonal layoffs. Compared with July, 1939, total factory employment was 10½ per cent greater and payrolls were 14½ per cent larger.

In the country as a whole, it is estimated that over 130,000 more persons were at work in nonagricultural pursuits than in June, and that over 1,000,000 more persons were employed in such occupations than in July, 1939. The largest employment gains occurred in Federal, State, and local governments, in building construction, and in transportation and other public utilities. However, retail trade establishments, as usual, curtailed their working forces considerably during July.

There was little change in factory employment between

June and July, and payrolls decreased slightly although the decline was not so great as is usual at this time of year. Stimulated in varying degrees by the war and the National defense program, employment increases occurred in the aircraft, shipbuilding, engine, and machine tool industries, as well as in plants producing iron and steel, shoes, cotton and woolen textiles, and men's clothing. Other concerns which added to their working forces in July were canning factories, radio manufacturing plants, slaughter houses, and book and job printing establishments. All these gains, however, were practically offset by the large seasonal layoffs at automobile plants and women's clothing factories. Total factory employment was 6½ per cent above the level of a year before, and payrolls were 14 per cent greater.

Production and Trade

From early indications—with allowance for the usual seasonal influences—it appears that general business activity during August remained close to the level prevailing in June and July. Steel mill operations averaged around 90 per cent of capacity, reaching 91½ per cent during the final week, compared with an average of about 87½ per cent for the month of July. The continued rise in steel mill activity this summer has resulted in a record rate of output for this time of year, as is shown in the accompanying diagram. Automobile assemblies reached the low for the year in the early part of August, subsequently increasing each week as production of 1941 models gained momentum. Electric power production was higher than in July, while railway freight traffic was little changed. Cotton mill activity appears to have been well maintained, and although sales fell below output during the first half of the month, they subsequently expanded, particularly in print cloths. From preliminary figures it appears that department store sales showed more than the usual seasonal advance during August.

Despite further acceleration of operations in industries stimulated by the war and by National defense preparations, the general level of business activity appears to have been little changed between June and

July, following the upturn of the two previous months. This bank's broad index of production and trade, seasonally adjusted, was 91 per cent of estimated long term trend in both June and July, compared with 88 in May, 87 in April, and 84 in July, 1939. Among the subordinate group indexes, pronounced gains occurred in the production of producers' goods. A number of important war materials are included in this index. Some reduction was indicated in the flow of goods in primary trade channels, in consumers' goods industries, and in retail trade.

(Adjusted for seasonal variations and estimated long term trend; series reported in dollars are also adjusted for price changes)

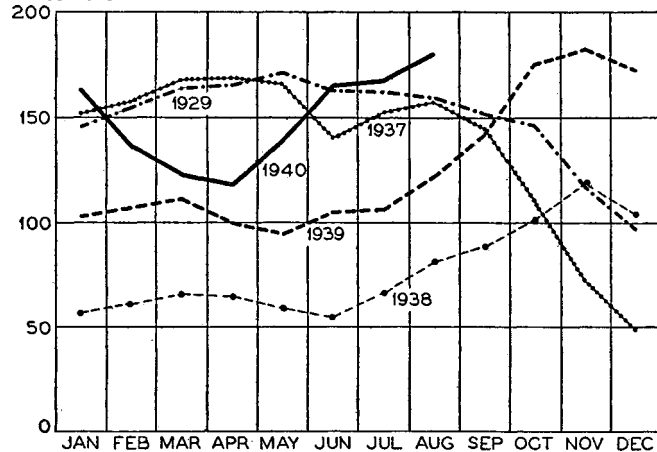
	1939	1940		
	July	May	June	July
Index of Production and Trade	84	88	91 _p	91 _p
Production of:				
Producers' durable goods.....	69	80	86 _p	91 _p
Producers' nondurable goods.....	96	93	94 _p	97 _p
Consumers' durable goods.....	58	70	70 _p	67 _p
Consumers' nondurable goods.....	93	95	97 _p	95 _p
Primary distribution.....	79	85	90 _p	88 _p
Distribution to consumer.....	89	92	96 _p	93 _p
Industrial Production				
Steel.....	76	86	110	118
Automobiles r.....	66	85	81	74
Bituminous coal.....	83 _r	99	93	99 _p
Crude petroleum.....	88	91	88	83 _p
Electric power.....	93	98	99 _p	98 _p
Cotton consumption.....	105	99	102	109
Wool consumption.....	116	88	97	110 _p
Shoes.....	112 _r	90	95 _p	99 _p
Meat packing.....	93	101	102	97
Tobacco products r.....	88	94	99	89
Manufacturing Employment				
Employment.....	88	92	93	94 _p
Man-hours of employment.....	82	86	87	87 _p
Construction				
Residential building contracts.....	43	46	48	55
Nonresidential building and engineering contracts.....	52	53	54	71
Primary Distribution				
Ry. freight car loadings, mdse. and misc.....	78	81	85	83
Ry. freight car loadings, other.....	79	91	93	95
Exports.....	87	100	114	106 _p
Imports.....	75	71	82	82 _p
Distribution to Consumer				
Department store sales (U.S.).....	85	85	89	89 _p
Grocery chain store sales.....	93	96	97	96 _p
Variety chain store sales.....	100	96	102	98 _p
Mail order house sales.....	95	98	100	94
New passenger car sales r.....	66	75	92	82 _p
Velocity of Deposits*				
Velocity of demand deposits, outside New York City (1919-25 average=100).....	58	58	54	53
Velocity of demand deposits, New York City (1919-25 average=100).....	31	27	24	24
Cost of Living and Wages*				
Cost of living (1926 average=100).....	82	83	83 _p	83 _p
Wage rates (1926 average=100).....	111	114	114 _p	114 _p

_p Preliminary. _r Revised. * Not adjusted for trend.

Foreign Trade

Accompanying the elimination of France, in addition to other blockaded areas of continental Europe, as a foreign outlet for American products, total merchandise exports from the United States declined during July; the value of exports at \$317,000,000 was \$33,000,000, or nearly 10 per cent, below the comparatively high level of June. Increased exports from this country to the United Kingdom during July appear to have partly compensated for the loss of the French market. (United

THOUSANDS OF
GROSS TONS



Daily Average Steel Ingot Production (August, 1940, estimated)

States shipments to France in the part of June prior to its capitulation amounted to \$47,000,000.) Moreover, "general" imports, valued at \$232,000,000, exceeded the June figure by \$21,000,000 or 10 per cent. The export balance was thus reduced from \$139,000,000 in June to \$85,000,000 in July, the latter figure being the smallest excess of exports for any month since last November, although substantially larger than that of July a year ago.

The value of both exports and imports was about 38 per cent higher than in July, 1939. For the eleven months since the European war began (September-July) exports from the United States amounted to \$3,666,000,000, or 36 percent more than in the comparable 1938-39 period; for the same period imports, valued at \$2,405,000,000, showed a 23 per cent rise.

A decline of \$32,000,000, or 15 per cent, from June to July in the value of exports of finished manufactures accounted for almost the entire reduction in total domestic exports between these two months. On the other hand, increases in exports of wholly and partly finished manufactures over July, 1939 were primarily responsible for the year-to-year gain in the aggregate, as the accompanying table indicates. Substantial decreases from the previous month were reported in exports of aircraft and war materials generally, as well as in metal working machinery, but all of these were far larger than a year ago. Export shipments of copper (reflecting sizable Japanese takings), of iron and steel products, and of industrial chemicals were larger than in either the previous month or July, 1939, while exports of refined petroleum products, automobiles, and semimanufactures of aluminum were smaller. Among the crude materials, exports of cotton and coal were somewhat less than in June, but continued well above a year ago. While exports of manufactured foodstuffs were generally smaller than last year, such items as lard, and canned fish and dairy products showed large gains over both the previous month and July, 1939. Exports of corn and also of woodpulp were larger than in June and were many times the small amounts of a year ago.

Owing to an unusually large volume of imports going into customs warehouses during July, imports for consumption (on which the analysis by groups and individual commodities is based) were valued at \$14,000,000 less than "general" imports for that month. Nevertheless, imports for consumption, valued at \$218,000,000, were \$12,000,000 larger than in June and \$47,000,000

more than in July of last year. Reflecting in some measure expansion in industrial demand as well as the effort to accumulate reserves, imports of such foreign produced raw materials as uncut diamonds, silk, and rubber showed exceptionally large increases over both the previous month and a year ago; wool receipts, although somewhat smaller than in June, also registered a substantial gain over July, 1939. Among wholly and partly manufactured goods, imports of burlap, works of art, and inedible expressed oils showed especially large increases, and receipts of newsprint paper, tin, and nickel also registered considerable advances over a year ago. Imports of most crude foodstuffs, especially cocoa, were larger than in either the previous month or July, 1939; on the other hand, imports of liquors, which were unusually large in June, edible vegetable oils, and sugar showed reductions from the previous month.

Building

Owing especially to a large volume of awards arising from the defense program, total construction contracts placed during July in the 37 States included in the F. W. Dodge Corporation survey were at the highest level for that month since 1929. Construction awards in July for publicly financed work constituted the largest proportion of the total for any month this year—slightly over 50 per cent. The daily rate of all contract awards was 23 per cent above that of the previous month and exceeded the July, 1939 figure by 38 per cent. The increase during July offset the effect of less favorable year-to-year comparisons in the early months of 1940, and brought the total for the first seven months of this year to a level slightly higher than in the corresponding 1939 period.

All of the major construction categories during July contributed in some measure to the gains in the aggregate except contracts for public purpose buildings, which, while 12 per cent larger than in June, showed a slight decline from July a year ago. A threefold increase was recorded in the industrial type of construction over both the previous month and July, 1939, and commercial building awards showed advances over those months of 21 per cent and 91 per cent, respectively owing almost entirely to defense projects. Contracts for heavy engineering projects, reflecting especially Federal contracts for construction work on airports at a number of different points, were 22 per cent higher than in either the previous month or July, 1939. In addition, there was a small increase over the June average in residential building awards, contrary to the usual declining tendency between these two months, and contracts for this type of construction were 34 per cent higher than in July of last year.

In New York and Northern New Jersey, the daily average rate of contract awards in July showed an increase of 17 per cent over the previous month and of 16 per cent over the comparatively low level in July of last year; the volume, however, was 7 per cent less than in July of 1938. Owing to the awarding of sizable contracts for subway construction and for the elimination of railroad grade crossings in Metropolitan New York, contracts during July for public utility construction in the New York and Northern New Jersey area

(In millions of dollars)

	Value July, 1940 †		Change in value of			
			Exports* July, 1940 compared with		Imports** July, 1940 compared with	
	Exports*	Imports**	June, 1940	July, 1939	June, 1940	July, 1939
Crude materials.....	32.0	85.2	- 1.6	+ 2.3	+14.7	+35.2
Crude foodstuffs.....	7.7	24.9	+ 1.2	+ 3.0	+ 1.3	+ 3.2
Manufactured foodstuffs...	12.7	22.6	+ 1.4	- 2.3	- 8.7	- 5.2
Semimanufactures.....	75.5	45.4	- 0.8	+29.6	+ 0.3	+ 8.5
Finished manufactures.....	184.4	39.7	-32.3	+53.0	+ 4.8	+ 5.7
Total.....	312.3	217.8	-32.1	+85.6	+12.4	+47.4

*Domestic exports only.

**Imports for consumption.

showed large gains relative to both the previous month and July, 1939. Awards for commercial, industrial, and residential buildings also registered considerable advances, but contracts for public purpose building and public works projects were smaller. For the first seven months of 1940 total contract awards were 18 per cent below the level in the comparable 1939 period. With the exception of commercial and industrial building, awards for which were 25 per cent higher than in the first seven months of 1939, all the principal construction classifications showed unfavorable comparisons with the corresponding period of last year.

For the first two weeks of August the daily average rate of construction contract awards in the 37 States declined 2 per cent from July, but were one-third larger than in the corresponding period of August, 1939.

Commodity Prices

Leading wholesale commodity markets were characterized by mixed price movements during August, and the net changes in prices for the month as a whole were mostly small. The Bureau of Labor Statistics daily index of 28 basic commodities drifted lower during the first half of the month, to a point only 5½ per cent above the average for the prewar month of August, 1939, but the index subsequently recovered to the level prevailing in the middle of July.

Reflecting the effect of a large supply of wheat in this country and Canada, as well as the uncertain outlook for foreign demand, wheat quotations in the middle of August dropped to the lowest levels since last summer. Subsequently, however, as a large volume of the new wheat crop moved into the Government loan stocks, wheat prices regained a considerable part of the previous losses. The cash quotation for spring wheat in Minneapolis at 72⅞ cents a bushel showed a decline for the month of 5⅛ cents, however. Accompanying reports early in the month of unfavorable weather and indications of a limited amount going into the "free" market, corn prices were firm; the closing cash quotation at 64¾ cents a bushel showed little net change from the end of July. On August 22 sugar was down to 2.61 cents a pound—the lowest quotation since December, 1934—but the price later recovered to 2.73 cents, apparently in response to the eight month extension of world quota certificates and announcement by the Department of Agriculture on August 26 of a reduction in the import quotas. Hog quotations continued to advance throughout most of the month and at \$7.18 a hundredweight showed a gain of \$1.08 from the end of July; steers were up \$1.55 for the month and at \$11.38 a hundredweight on August 27 were the highest since the fall of 1937.

The loss of export markets continued to be a major factor in the decline in cotton prices during August. Despite the announcement of a sharp reduction in the carryover and an estimate of lower production for this year, the average spot quotation at 10 Southern markets decreased 66 points to 9.40 cents a pound. Virtually no change occurred in silk prices during the month, but wool tops rose 5½ cents to \$1.04 a pound, reflecting prospective purchases of piece goods for the Army. On the other hand, the price of rubber receded.

Some strength in the metal markets became apparent about the middle of August. Following a decline early in the month in the domestic copper price, customs smelters advanced their price on August 20 to 11 cents a pound, equal to that quoted by primary producers. Despite estimated Japanese purchases amounting to 40,000 tons, however, the export price lagged at the low level of 9.90 cents a pound from August 7 through the remainder of the month. On August 14 the price of zinc was increased to 6.50 cents a pound, the first advance since June 3; the supply was reported to be the lowest in four years. Reductions early in the month in the price of lead were virtually canceled by an advance on August 21 to 4.90 cents a pound. Tin declined to 50.55 cents a pound on August 23, but subsequently recovered a small part of the loss. Scrap steel at Pittsburgh showed a net advance of 25 cents to \$18.75 a ton.

Department Store Trade

For the three weeks ended August 24, total sales of the reporting department stores in this District were about 11 per cent higher than in the corresponding 1939 period, owing in part to an unusually large gain in the third week. In that week the cool weather stimulated sales of fall merchandise, and a more active demand for home furnishings also was reported. The daily rate of sales for these three weeks of August showed more than the usual seasonal advance from July.

In July total sales of the reporting department stores in this District were about 8 per cent higher than in July, 1939, and the daily rate of sales showed somewhat less than the customary seasonal decline from the June level.

Locality	Percentage change July, 1940 compared with July, 1939		Per cent of accounts outstanding June 30 collected in July	
	Net sales	Stock on hand end of month	1939	1940
New York and Brooklyn	+ 7.1	+ 0.6	46.9	47.9
Buffalo	+ 8.0	+ 3.7	45.1	44.4
Rochester	+13.2	+ 7.6	55.4	53.2
Syracuse	+17.1	+10.4	37.0	37.9
Northern New Jersey	+ 9.1	+ 6.7	38.6	34.4
Bridgeport	+11.1	+ 2.1	38.4	39.4
Elsewhere	+ 6.3	+ 0.9	33.2	33.1
Northern New York State	+ 0.4	.....	.....	.....
Southern New York State	+ 6.0	.....	.....	.....
Central New York State	+10.9	.....	.....	.....
Hudson River Valley District	+ 5.6	.....	.....	.....
Westchester and Stamford	+ 0.3	.....	.....	.....
Niagara Falls	+11.3	.....	.....	.....
All department stores	+ 8.1	+ 2.3	43.9	42.9
Apparel stores	+ 5.9	- 6.5	42.4	43.4

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

	1939	1940		
	July	May	June	July
Sales (average daily), unadjusted	63	85	89	67
Sales (average daily), seasonally adjusted	89	88	92	94
Stocks, unadjusted	67	79	74	68
Stocks, seasonally adjusted	77	77	78	79

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

Business Conditions in the United States

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

VOLUME of industrial output was steady during July and the first half of August, after a rapid expansion in May and June. Employment continued to increase. Reflecting mainly awards for National defense projects, construction contracts rose to the highest level in ten years. Prices of basic commodities declined somewhat further.

PRODUCTION

In July the Board's revised index of industrial production stood at 121 per cent of the 1935-39 average, according to preliminary data. This is the same as in June and 17 points above the level prevailing a year ago before the outbreak of war. In most lines activity was maintained at the levels reached in June or increased further.

Steel production in July was at about 85 per cent of capacity and in the first half of August there was an increase to about 90 per cent. Production of pig iron and coke and output of nonferrous metals were also in large volume. In the machinery, shipbuilding, and aircraft industries, where new orders had been large during the first half of the year and a considerable backlog of unfilled orders had accumulated, activity was maintained at high levels in July, although ordinarily there are declines at this season. Lumber production declined sharply early in July but has subsequently increased accompanying a considerable rise in new orders.

In the automobile industry output declined sharply in July and the first half of August as plants were closed to prepare for the shift to new model production. The decline was greater than at this season in other recent years, reflecting the fact that production had been at high levels during the first half of 1940 and large stocks had accumulated. These stocks were reduced considerably in July as production was curtailed and retail sales continued large.

Textile production increased considerably further in July, reflecting chiefly a marked rise in activity at woolen mills where output is still below the levels of a year ago. Production of cotton and rayon textiles was maintained in July and was in larger volume than last summer, while activity at silk mills increased somewhat from the exceptionally low level reached in June. Shoe production increased seasonally, while output of manufactured foods, which in June had been unusually large for that time of year, showed less than the customary increase in July.

Coal production has risen further and shipments of iron ore down the Lakes have continued at near-capacity rates. Petroleum production has been curtailed sharply, however, reflecting partly a continued high level of stocks of petroleum products.

Value of new construction work undertaken increased sharply in July, owing mainly to a further rise in public construction, and was at the highest level in the past decade, according to reports of the F. W. Dodge Corporation and the Federal Reserve Bank of San Francisco. Awards for both residential and nonresidential private building increased somewhat, although some decline is usual at this season.

DISTRIBUTION

Distribution of commodities to consumers was sustained in July at about the levels prevailing in the first half of the year. Sales at department stores declined more than seasonally, while sales at variety stores showed little change, although a decline is usual in July.

Total freight car loadings increased seasonally in July. Shipments of grain showed a considerable rise and loadings of coal and coke continued to advance, while shipments of miscellaneous freight, which include most manufactured products, declined by somewhat more than the usual seasonal amount.

COMMODITY PRICES

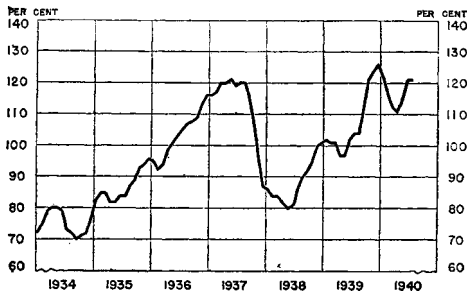
Prices of basic commodities declined somewhat further from the middle of July to the middle of August, with decreases chiefly in prices of commodities influenced by foreign supplies, such as lead, rubber, cocoa, and coffee. Prices of steel scrap and zinc, on the other hand, advanced somewhat in this period.

AGRICULTURE

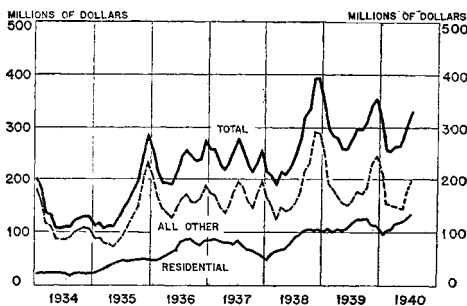
Prospects for most crops showed little change in July, according to the Department of Agriculture. Production this year is expected to approximate the 1929-38 average and, considering carryovers, supplies of most crops will be large. Conditions for wheat and oats improved during July, while the corn crop showed some deterioration. A cotton crop of 11,429,000 bales was indicated for this season as compared with 11,817,000 bales last season.

BANK CREDIT

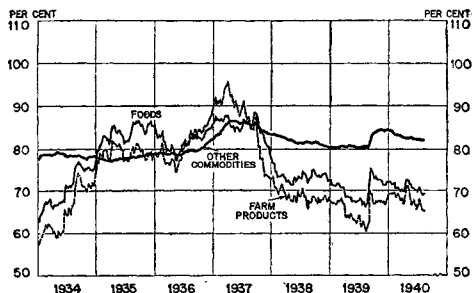
Total loans and investments at reporting member banks in 101 leading cities increased substantially during the five weeks ended August 14, owing mainly to purchases of direct and guaranteed securities newly issued by the United States Government. Sale of these securities caused a large increase in Treasury balances with the Federal Reserve Banks. As a result of this temporary development, excess reserves declined by \$450,000,000 in this period despite an increase of over \$500,000,000 in monetary gold stock.



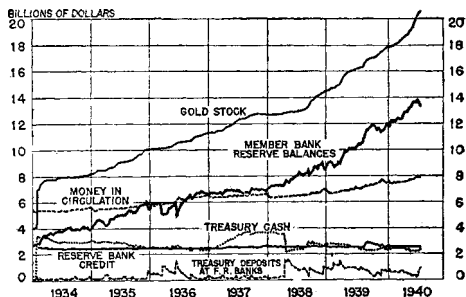
Index of Physical Volume of Industrial Production, Adjusted for Seasonal Variation (1935-1939 average=100 per cent)



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



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



Member Bank Reserves and Related Items (Latest figures are for August 7)