

MONTHLY REVIEW

of Credit and Business Conditions

Second Federal Reserve District

Federal Reserve Bank, New York

October 1, 1940

Money Market in September

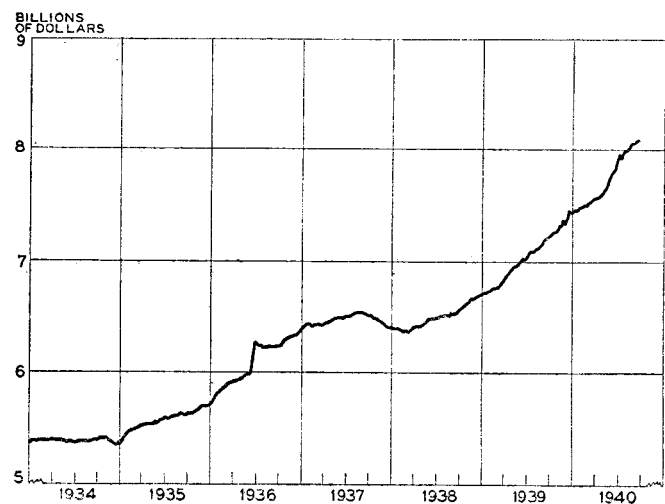
There was only a small increase, during September, in the amount of bank credit in use, despite rising general business activity and the acceleration of National defense preparations. The use of bank credit in financing new plants and equipment, made necessary by defense orders, is expected to increase, however, with the adoption by the Government of a bankable form of contract relating to such orders and the passage of legislation permitting the assignment of such contracts as security for bank loans. On September 25, the National Defense Advisory Commission announced that the Federal Reserve System, at the request of the Commission, had made a test survey of the amount of bank credit which might be available for use in expanding the production facilities of the nation. This survey, covering a representative number of banks in each Federal Reserve District, confirmed what had previously been assumed, namely, that the commercial banks of the country are eager to do their part in the National defense program, and stand ready with ample funds to further in any way they properly can the financing of defense measures. During the test period (two days) when the survey was made, only a numerically small portion of the nation's banks could be reached, but the amount of credit which these banks indicated they might extend was at least \$3,000,000,000, and returns from other banks which were not included in the survey would have added to this total. Partly as a consequence of this survey, the National Defense Advisory Commission has felt able to state that, as soon as pending legislation has been passed to allow the form of contract developed by the Commission to be assigned as security for bank loans, manufacturers needing to expand their plants or improve their equipment, on account of the defense program, should have no trouble in obtaining funds for construction promptly and at low rates of interest through their usual banking connections.

Earlier in the month, the Federal Loan Administrator had announced that between June 25 and September 18 the Reconstruction Finance Corporation had made 112 loans and commitments, amounting to \$559,000,000, to aid in the National defense program; of this amount approximately \$308,000,000 was made available to three Government corporations created to acquire reserve stocks of rubber, gasoline, and certain metals.

The supply of money market funds increased further,

in September, and on September 25 excess reserves of all member banks amounted to \$6,650,000,000, showing an increase of \$320,000,000 since August 7. They remained \$230,000,000 below the peak of \$6,880,000,000 reached on July 17, however, because of a net increase since that date of more than \$500,000,000 in Treasury deposits in the Reserve Banks resulting from payments for new security issues on July 22 and August 1.

One of the factors acting to restrain the rise in excess reserves, in the face of continued, though smaller, increases in the gold stock of the United States in September, has been a continued rise in the amount of money in circulation. For many months the amount of money in circulation has been rising, both in actual volume and after adjustment for usual seasonal changes, and has reached a new high level, as the accompanying diagram indicates. Weekly changes in circulation have exceeded the usual rise in periods of seasonal expansion and have failed to show the usual drop in periods of seasonal contraction, or even in some weeks have increased at times when decreases are usual. The actual amount of currency in circulation (outside the Reserve Banks and the Treasury) on September 4 reached \$8,092,000,000, at the culmination of the Labor Day demand, and on September 25 was only slightly less. This represents an increase of more than \$800,000,000 since September, 1939, and a rise of about \$2,650,000,000 since September, 1934. The rise in currency circulation during the past year appears



Changes in Money in Circulation, Seasonally Adjusted

to have resulted from the increase in business activity, with the concurrent rise in payrolls and retail trade, as well as from an increase in idle holdings of currency. The current low level of money rates offers little incentive to the prompt depositing of idle currency, and conditions in foreign countries have probably induced the holding of substantial amounts of currency in this country or abroad by foreigners. At periods of crisis in European conditions during the past two years, rather large amounts of United States currency were shipped abroad, but in recent months such shipments have been comparatively small.

Another principal factor which has restrained the rise in excess reserves during the past two months, in the face of the continued mounting of the country's gold stock, has been an increase of \$118,000,000 in foreign deposits in the Reserve Banks since August 7. This represents largely the deposit in the Reserve Banks of the proceeds of sales of gold to the United States by foreign countries which have exceeded disbursements from such accounts for war and other purposes. On September 5 the item "Foreign bank" deposits in the Federal Reserve Banks' weekly statement of condition was changed to "Foreign" deposits. It was announced that at the request of, and under authority granted to it by, the Secretary of the Treasury, the Federal Reserve Bank of New York, as fiscal agent of the United States, had opened accounts for certain foreign governments. The funds in these accounts previously had been held at this bank in the name of foreign central banks which were acting as fiscal agents for their respective governments.

An increase of approximately \$100,000,000 in the amount of reserves required to be held by all member banks, accompanying some increase in demand and interbank deposits in these banks, has also been a sizable factor in restraining the growth of excess reserves since early August. Changes in excess reserves and the principal factors causing such changes from the July 17 high to the August 7 low and for the subsequent period are indicated in the following table.

	Effect on member bank reserve position (In millions of dollars)	
	July 17 to Aug. 7	Aug. 7 to Sept. 25
Increase in gold stock.....	+312	+598
Change in Treasury cash, and deposits with F. R. Banks.....	-722*	+108**
Increase in money in circulation.....	-57	-161
Increase in foreign deposits.....	-93	-118
All other items—net.....	-17	-10
Change in member bank reserves.....	-577	+417
Change in excess reserves.....	-550	+320

* Increase in cash and deposits

** Reduction in cash and deposits

MEMBER BANK CREDIT

Total loans and investments of reporting banks in 101 leading cities rose \$104,000,000 further during the four weeks ended September 18, reaching a new high since October, 1929; of this increase \$91,000,000 occurred at New York City banks. Commercial, industrial, and agricultural loans rose \$123,000,000 during this period, reflecting to a considerable extent term loan operations

connected with refunding of outstanding securities. Loans to brokers and dealers in securities, including United States Government security dealers, rose \$27,000,000, probably owing largely to operations of the latter at a time when announcements of offerings of new Government security issues were expected by the market. Loans for miscellaneous purposes, not otherwise classified, also showed a further rise in the four weeks ended September 18.

Direct United States Government security holdings were reduced \$106,000,000, following the increase which occurred in July; \$62,000,000 of the decline, however, represented a drop in Treasury bill holdings, and \$25,000,000 a decline in Treasury notes, with reductions reported both at New York City banks and at banks in other cities. Treasury bond holdings declined \$19,000,000, as a reduction of \$30,000,000 outside New York was only partly counterbalanced by a net increase of \$11,000,000 in holdings of New York City banks. Holdings of Government guaranteed obligations were little changed, while holdings of municipal and corporate securities increased moderately, owing entirely to a rise in New York City bank holdings.

Adjusted demand deposits increased only slightly for the four week period ended September 18, but interbank deposits rose more than \$300,000,000 to a new high, following the declines which occurred in the latter part of July when payments were being made for new Government securities.

Money Rates in New York

	Sept. 30, 1939	Aug. 31, 1940	Sept. 30, 1940
Stock Exchange call loans.....	1	1	1
Stock Exchange 90 day loans.....	*1½	*1½	*1½
Prime commercial paper 4-6 months.....	¾-¾	¾-¾	¾-¾
Bills—90 day unindorsed.....	¾	¾	¾
Average yield on Treasury notes (3-5 years).....	0.98	0.51	0.45†
Average yield on Treasury bonds (not callable within 12 years).....	2.75	2.27	2.20
Average rate on latest Treasury bill sale 91 day issue.....	0.082	0.028	0.013
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 +0.03 per cent from previous yields, due to dropping from the average the 1 per cent Treasury note issue of September 15, 1943 which matures within three years.

GOVERNMENT SECURITIES

The Government securities market registered substantial net advances for September, reflecting largely a strong price rise during the third week of the month. During the month, the average price of comparable long term Treasury bonds rose approximately ¾ of a point to within ⅓ of a point of the 1940 high which was reached in April before the intensification of the war, and within ⅞ of a point of the record high for long term Treasury bonds which was reached in June, 1939. Intermediate term Treasury bonds and Treasury notes also advanced in price during this period, and likewise approached previous highs. On September 25, the Treasury offered holders of \$737,000,000 of 1½ per cent Treasury notes, maturing December 15, 1940, the privilege of exchanging them, par for par, for 2 per cent Treasury bonds maturing June 15, 1955, but redeemable at the option of the Treasury on or after June 15, 1953. None

of the new issue of bonds was offered for cash subscription. Subsequently, some irregularity developed in Government security prices, but closing prices of the month were not materially below the month's highs.

The September 11 issue of Treasury bills was awarded at a price which yielded 0.038 per cent, the culmination of a five week increase from the 0.004 per cent basis at which bills were sold on July 31 and August 7. The issue dated September 18 was awarded at 0.032 per cent and that of September 25 at 0.013 per cent. Treasury bill financing continued in the amount of \$100,000,000 a week and replaced similar maturities.

COMMERCIAL PAPER AND BILLS

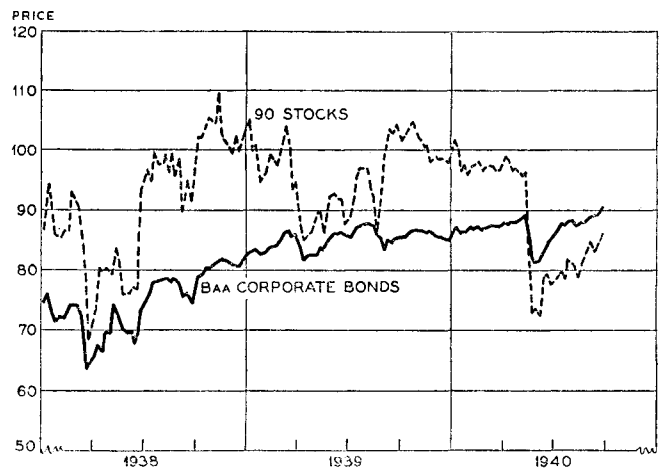
In the commercial paper market, the best grade commercial paper, when available, continued to command a $\frac{3}{8}$ per cent rate in September, and average grade prime paper of 4 to 6 month maturity was again quoted at $\frac{1}{2}$ per cent for most of the volume and $\frac{5}{8}$ per cent for the remainder. Some expansion in the amount of paper outstanding has occurred; commercial paper concerns reported a total of \$244,700,000 of paper outstanding at the end of August, the largest amount in 27 months. The August 31, 1940, total was \$13,000,000 higher than a month before and \$44,000,000 above a year ago.

The bill market remained extremely quiet during September. Dealers' offering rates remained largely nominal at unchanged levels. The volume of bankers bills outstanding at the end of August totaled approximately \$182,000,000, an amount about \$6,000,000 smaller than in July and \$53,000,000 less than a year previous. The decrease during the past year is largely accounted for by contractions of \$30,000,000 and \$16,000,000, respectively, in bills based on goods stored in or shipped between foreign countries and bills drawn to finance exports.

Security Markets

A firm undertone was evident in the security markets during much of September and presumably reflected the quickening tempo of domestic business as National defense orders began to be placed in larger volume. However, despite rising business activity, the security markets showed hesitancy around the middle of the month, on reports of increasingly violent German bombing raids on London, and again at the end of the month. The volume of trading on the New York Stock Exchange was at higher levels than in August, and on September 5 about 1,250,000 shares changed hands—the largest total since June 12.

The average price of common stocks, as measured by the Standard Statistics Company 90 stock index, continued early in September the rise noted late in August, and on September 5 attained the highest level since May 13, having regained 62 per cent of the May-June decline. Share prices weakened in following trading sessions, in conjunction with intensified bombing of London, and reached the month's low on September 12. Two days later the combined index started to move upward irregularly and on September 23 approximately regained the level of September 5. The component groups in this index followed a course generally similar to the total, although rail shares continued to make a better than average show-



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

ing, having recovered, at their high for the month, 87 per cent of the May-June decline.

Prices of corporation bonds of the grade rated Baa by Moody's Investors Service moved up to equal the year's high on September 7. During the next seven trading sessions they were at slightly lower levels, but on September 23 medium grade bonds advanced to the highest prices since March, 1937.

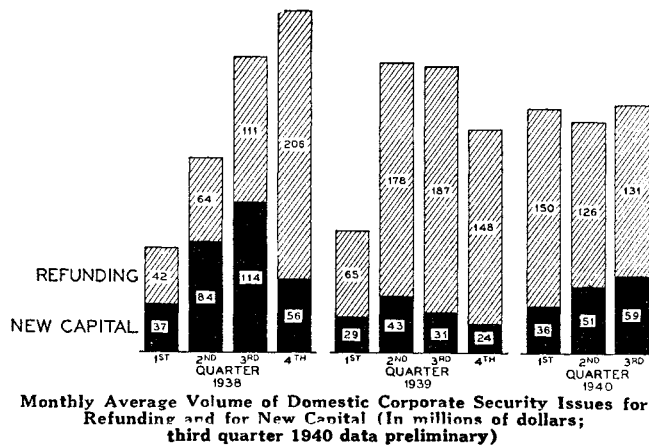
Quotations of high grade bonds moved within narrow limits, but some rising tendency was evident. On September 18, the average price of Moody's Aaa bonds equaled the May high, and subsequently advanced further to a new record high. Prime municipal bonds continued to show strength and also reached new all-time highs.

The accompanying chart compares the recent recoveries which have occurred in prices of medium grade bonds and of stocks, two of the more volatile classes of corporation securities. In the case of Baa bonds, the loss which occurred during the May decline this year has been fully regained and near the end of September the average price stood at the highest level in three and one-half years. With respect to common stock prices, only about two thirds of the abrupt May-June decline had been recovered by the latter part of September.

New Financing

Despite rising price tendencies in outstanding bonds, September, like August, showed a decline in the volume of corporate and municipal new security issues floated. The month's total of \$185,000,000 was the smallest for any month since September, 1939, immediately after the outbreak of the war. Although numerous reports have appeared of plans for plant expansion in connection with the National defense program, corporate financing amounted to only \$120,000,000, of which approximately one half represented refunding operations. Municipal awards totaled \$65,000,000, or about the same as in August. Most of the corporate issues were well received by investors and toward the end of the month were quoted at premiums.

About \$23,000,000 of the corporate securities were



privately sold, including \$11,000,000 Western Massachusetts Companies notes and \$10,000,000 Potomac Electric Power Company bonds. A large proportion of the corporate total was accounted for by the public offering of eight railroad equipment trust issues, six of which had been originally bought by the Reconstruction Finance Corporation and subsequently sold to a banking group.

On September 11, public offering was made of the first corporate new security issues to be released by the Securities and Exchange Commission in less than twenty days after filing for registration, under the new legislation permitting such action. The largest of these issues—\$15,000,000 of Dow Chemical Company securities—the registration of which became effective in thirteen days, consisted of \$7,500,000 of 2¼ per cent debentures of 1950, priced at 101½ to yield 2.08 per cent, and \$7,500,000 of 0.35 per cent to 2.05 per cent serial debentures, maturing from 1941-50 and priced at par for all maturities. The month's largest issue, that of \$30,000,000 Southern California Gas Company 3¼ per cent first mortgage bonds of 1970, was offered to the public on September 25, priced at 103½ to yield 3.07 per cent.

Municipal awards included \$9,700,000 City of Detroit, Michigan, 2¾, 3½, and 4 per cent refunding serial bonds maturing from 1941-61, which were awarded at an interest cost of 2.9144 per cent and reoffered to yield 0.40 per cent to 2.98 per cent; also, \$8,000,000 of New York City Housing Authority bonds. In addition to these long term issues, a number of short term obligations, aggregating \$125,000,000, were sold.

The accompanying diagram shows domestic corporate new security financing by quarters in recent years. The \$190,000,000 monthly average for the third quarter of 1940 was only slightly greater than that for either of the first two quarters of the year, although the portion of the total representing new capital (\$59,000,000) exceeded the volume of any similar period during the last two years.

Gold Movements

Shipments of gold to the United States continued to be received from a wide range of sources and in considerable number during September, but the total volume of imports declined further from the peak reached last June. Gold held under earmark at the Federal Reserve Banks for foreign account decreased about \$40,000,000 during the month to a total of about \$1,660,000,000 at

the end of September. The gold stock of the United States increased about \$330,000,000 during the month, approximately three-fourths the gain in August.

As reported by the Department of Commerce, a total of \$299,200,000 of gold was imported in the four weeks ended September 18. Of this amount, \$191,800,000 came from Canada, \$21,200,000 from Australia, \$18,200,000 from Portugal, \$15,200,000 from Netherlands Indies, \$11,200,000 from Russia, \$9,500,000 from Argentina, \$8,500,000 from Mexico, \$5,300,000 from the United Kingdom, \$5,200,000 from Curacao, \$4,000,000 from Japan, \$3,500,000 from South Africa, \$1,300,000 from Hong Kong, \$1,200,000 from the Philippines, and \$200,000 from British India.

Foreign Exchanges

Inasmuch as the New York market for sterling has now dwindled to negligible proportions and trading remains suspended in the currencies of those European countries whose American assets are "frozen" by Executive Order, interest in the exchange market during the past month centered on the Western Hemisphere currencies, many of which showed rather substantial fluctuations.

The discount on the Canadian dollar in the unofficial market widened substantially toward the middle of September, reaching a maximum of 17½ per cent on September 14. This weakness in Canadian exchange was largely the result of the repatriation of American funds through the free market, following the redemption of Canadian bond issues. Although the Canadian exchange regulations prohibit the repatriation of the proceeds of sales of Canadian securities held by non-residents, the latter may sell in the unofficial market Canadian dollars, derived from their holdings of maturing issues payable in that currency. During the latter part of the month the pressure against the Canadian dollar diminished and the unofficial discount narrowed again and closed the month at 14 per cent.

Substantial fluctuations occurred also in the rates for several Latin American currencies during September. Interest in these exchanges was stimulated by the action taken by the United States Congress in authorizing an increase of \$500,000,000 in the lending power of the Export-Import Bank for the purpose of assisting Western Hemisphere countries. The rate for the Mexican peso, which had held for about a month near \$0.2006, was allowed to appreciate on September 21 and by September 24 had reached \$0.2060. The rate subsequently showed a partial reaction, however, ending the month at about \$0.2040. The discount on the Cuban peso, after widening somewhat to about 11¾ per cent on September 10, narrowed to 8 per cent a week later, apparently as a result of short covering induced by the expectation that a \$50,000,000 loan, which had been authorized by the Cuban Government, would be made by the Export-Import Bank. The discount at the end of the month was 8¾ per cent. The free rate for the Argentina peso appreciated about 1 cent to \$0.2365 in the first three weeks of September, but subsequently reacted temporarily to as low as \$0.2285 on September 14. This weakness appears to have been in anticipation of a pos-

sible readjustment of the official Argentine rates for the dollar. On September 18 the Argentine authorities temporarily suspended the granting of prior exchange permits for the importation of American goods, for the announced reason of permitting a careful examination of the relative merits and urgency of applications for such permits, but the suspension of permits was reported to have been terminated on September 26.

Among the European exchanges, some resumption of commercial demand for the Swiss franc was evident in this market during the latter part of the month and the rate for Swiss exchange was permitted to appreciate somewhat from \$0.2279 to \$0.2296.

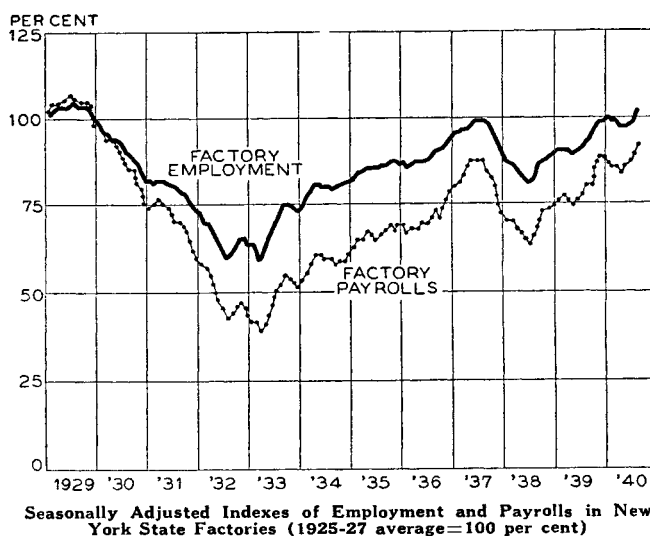
The free pound-dollar rate, which had appreciated during August to parity with the rate of \$4.03½ at which the British authorities make sterling available against dollars, advanced further to a high of \$4.05 on September 25. Some "free market" sterling, however, appears to have been supplied by the British authorities at the official rate to meet American demand, and by the end of the month unofficial quotations had returned to only slightly above the level of the official rates.

Employment and Payrolls

The increases of 4½ per cent in New York State factory employment and of 6½ per cent in payrolls between July and August were much larger than the gains ordinarily expected at this time of year. As shown in the accompanying diagram, this bank's seasonally adjusted indexes of New York State employment and payrolls have risen above the peak levels of 1937; employment has advanced to the highest point since October, 1929, and the payrolls index is now higher than at any time since May, 1930. During August, the airplane, shipbuilding, firearms, and textile industries all increased their working forces, reflecting the effect of Government defense orders in those lines. With the start of the fall season, the important clothing and millinery industries reported substantial gains, but New York State canneries reported their usual large August layoffs. Compared with August, 1939, total factory employment was 11 per cent greater and payrolls were 15 per cent larger.

In the country as a whole about 430,000 more persons were engaged in nonagricultural pursuits in August than in July. The Bureau of Labor Statistics now estimates that approximately 36,000,000 workers are engaged in such occupations—the largest number so employed since October, 1937. Much of the increase occurred in manufacturing establishments which added over 300,000 workers between the middle of July and the middle of August. Other large gains were reported in construction work and Federal, State, and local government service, while there was a seasonal decline in retail trade.

The increases in factory employment and payrolls for the country as a whole were much larger than usual in August. Factory employment rose 4 per cent and payrolls advanced 7½ per cent to new highs for the year. Compared with August, 1939, employment was 7½ per cent greater, and payrolls were 15½ per cent larger. The employment gains in August were widespread; 75 of the 90 industries surveyed reported increased working forces. In the aircraft, shipbuilding, machine tool, and



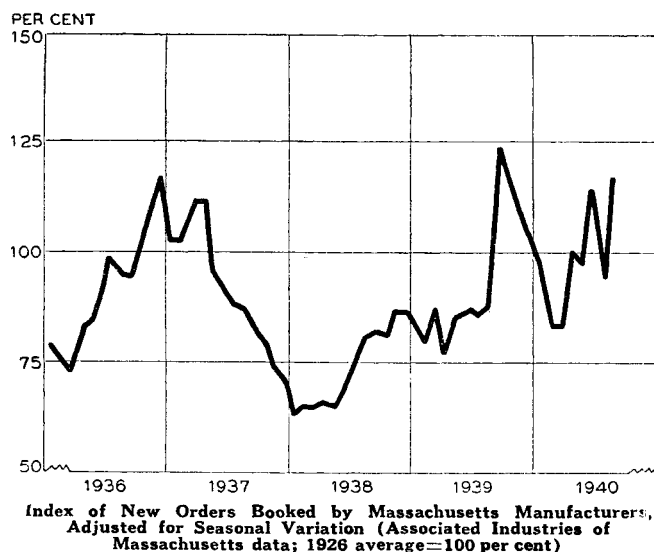
engine industries employment continued to expand, and steel mills and foundries hired additional workers. The canning and preserving industry, which as a whole follows a different seasonal pattern from that of the plants in New York State, reported large additions to working forces, and seasonal factors also largely accounted for substantial increases in employment in the apparel industries and in automobile manufacturing.

Production and Trade

In reflection of the continued stimulation to business arising from National defense activities, preliminary data indicate that the levels of production and trade were maintained or advanced in September. Steel mill operations averaged about 93 per cent of capacity during September, as compared with about 90 per cent in August. In anticipation of an increasing demand for steel and steel products, steel consuming industries were reported to be seeking to cover requirements for some months ahead. Automobile assemblies mounted rapidly throughout September as volume production of 1941 models got under way. Heavy mill sales of cotton goods were reported during the month, and mill operations were stepped up. Allowing for seasonal factors, railway freight traffic and electric power production were apparently well maintained in September, and, according to preliminary figures, department store sales appear to have shown about the usual seasonal advance from August, which, for the time of year, was an exceptionally active month.

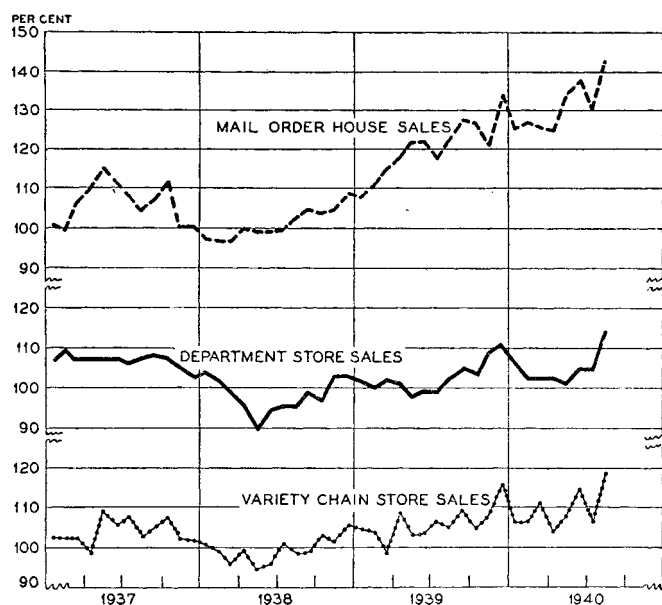
The index of production and trade of this bank, adjusted for seasonal variations and expressed in per cent of estimated long term trend, rose from 91 in July to 93 in August. In August a year ago, prior to the outbreak of the war and the ensuing four months' spurt in business activity, the index was 86. The current upturn, which began from a level of 87 in April, carried the index in August to within 2 points of the December, 1939, peak.

August was marked by well maintained or accelerated rates of operation in industries directly affected by the



National defense program. In addition to airplane, ship-building, and machinery plants, in which operations have been on a more or less steady upgrade for a year or more, steel and textile mills were increasingly active, and contract awards for construction work, as in July, ran roughly one-third above the level of a year ago. While production of nonferrous metals was not substantially changed from July, high rates of consumption of copper, zinc, and lead resulted in considerable reductions in available stocks. As the accompanying chart indicates, new orders received by manufacturers apparently reached a level which compares favorably with the rate of incoming business in early 1937 and also in the fall of 1939.

A marked expansion in retail trade also contributed substantially to the August rise in the production and trade index. Department store, mail order house, and variety chain store sales, shown on a seasonally adjusted basis in the second diagram, all registered large gains



Seasonally Adjusted Indexes of Sales of Mail Order Houses, Department Stores, and Variety Chains (1935-39 average=100 per cent)

from July. In each of these types of retail outlet, there has been a more or less steady rise since the early part of 1938.

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

	1939	1940		
	Aug.	June	July	Aug.
<i>Index of Production and Trade</i>	86	92	91 _p	93 _p
Production of:				
Producers' durable goods.....	72	86	91 _p	94 _p
Producers' nondurable goods.....	93	95	97 _p	99 _p
Consumers' durable goods.....	62	70	64 _p	67 _p
Consumers' nondurable goods.....	95	97	95 _p	94 _p
Primary distribution.....	80	90	89 _p	90 _p
Distribution to consumer.....	91	96	92 _p	96 _p
<i>Industrial Production</i>				
Steel.....	83 _r	110	118	115
Automobiles.....	73	93	79	57
Bituminous coal.....	86 _r	93	95	97 _p
Crude petroleum.....	64	88	86	84 _p
Electric power.....	94	100	99 _p	101 _p
Cotton consumption.....	106	102	109	115
Wool consumption.....	117	97	110	115 _p
Shoes.....	111 _r	96	102 _p	100 _p
Meat packing.....	95	102	97	97
Tobacco products.....	95	99	89	89
<i>Manufacturing Employment</i>				
Employment.....	89	93	94	96 _p
Man-hours of employment.....	85	87	89	92 _p
<i>Construction</i>				
Residential building contracts.....	54	48	55	60
Nonresidential building and engineering contracts.....	57	54	71	75
<i>Primary Distribution</i>				
Ry. freight car loadings, mdse. and misc. .	79	85	83	84
Ry. freight car loadings, other.....	80	93	95	94
Exports.....	92	114	108	113
Imports.....	71	82	81	80
<i>Distribution to Consumer</i>				
Department store sales (U. S.).....	88	89	89	97
Grocery chain store sales.....	99	97	96	99 _p
Variety chain store sales <i>r</i>	96	102	95	106
Mail order house sales.....	98	100	94	103
New passenger car sales.....	58	92	82	60 _p
<i>Velocity of Deposits*</i>				
Velocity of demand deposits, outside New York City (1919-25 average=100).....	58	54	53	53
Velocity of demand deposits, New York City (1919-25 average=100).....	30	24	24	23
<i>Cost of Living and Wages*</i>				
Cost of living (1935-39 average=100) <i>r</i> ..	102	104	104	104
Wage rates (1926 average=100).....	111	115	114 _p	...

p Preliminary *r* Revised * Not adjusted for trend

Foreign Trade

Total merchandise exports from the United States during August reached \$350,000,000, an amount which exceeded that of the previous month by \$33,000,000 (or 10 per cent) and was approximately equal to the high level of June, just prior to the virtual closing of the continental European markets to American trade. General imports, on the other hand, contrary to the usual tendency to show some gain at this season of the year, were down \$12,000,000 (or 5 per cent) to \$220,000,000 in August. Compared with August, 1939, exports increased 39 per cent in value and imports were 25 per cent higher. The excess of exports in August—\$130,000,000—was considerably above that of either the previous month or of August, 1939, and was about equal to the large export balances early this year.

The gain over July in exports was due in considerable measure to increased shipments abroad of aircraft,

especially to Great Britain, and of wholly and partly manufactured iron and steel products, metal-working machinery, copper, and other nonferrous metals; most of these exports were from two to three times as large as in August, 1939. However, exports of agricultural products, especially raw cotton, showed heavy reductions from both the previous month and a year ago. Shipments abroad of cotton, the bulk of which was sent to Great Britain, were less than one-third the volume of August, 1939. Exports of firearms and explosives were much smaller than in July, but remained far above the figures of a year ago. Among the imports, declines from the previous month were concentrated largely in uncut diamonds, burlap, expressed vegetable oils, and coffee. Sugar imports were somewhat smaller than in either the previous month or August, 1939. Substantial increases over July occurred in receipts of tin, furs, copper, crude rubber, and raw silk. Compared with August of last year, two or threefold increases were registered in imports of such strategic materials as crude rubber, tin, ferromanganese, and nickel.

\$2,110,000,000 in the corresponding period of 1938-39. The varying effects of the war on this country's leading exports and imports (arranged according to their values for the September, 1939-August, 1940 period), are indicated in the accompanying table by comparisons with the averages for the two corresponding years immediately preceding the war. Among the exports, aircraft and other war materials shifted from relatively low to high ranks, while exports of automobiles, crude and refined petroleum products, and of agricultural products other than raw cotton declined to comparatively unimportant positions. In general, imports of basic raw materials, especially nonferrous metals, have shown large increases during the war period.

Building

Reflecting in large part projects associated in one way or another with the National defense program, the total value of construction contract awards during August in the 37 States covered by the F. W. Dodge Corporation survey was one-third above August, 1939 and the largest for any month since June, 1930. On a daily average basis, however, awards declined 4 per cent from July.

During the past two months stimulation afforded by defense projects has been most apparent in nonresidential building. Contracts in this classification in August were 64 per cent above the daily rate for the same month last year. Awards for industrial building showed an exceptionally large increase over August, 1939, but those for commercial and miscellaneous nonresidential building also made important gains. The daily rate of nonresidential building awards in August this year was 21 per cent below the high July level, because of a decline in publicly financed projects, but private nonresidential building awards increased 9 per cent over July.

Awards for heavy engineering construction in August were 19 per cent above the year earlier level and, owing to gains in the public works category, were 11 per cent larger than in July of this year. Contract awards for residential building, which for the past five months have been at a higher daily average rate than at any time since 1929, were 16 per cent above those for August, 1939, but were only slightly larger than in July.

Contrasting with the showing in the 37 States, the

Dollar value in millions

Commodity	Exports*		Commodity	Imports**	
	Total Sept., 1939-Aug. 1940 (incl.)	Av. for yrs. Sept., 1937-Aug., 1938 and Sept., 1939-Aug., 1939		Total Sept., 1939-Aug., 1940 (incl.)	Av. for yrs. Sept., 1937-Aug., 1938 and Sept., 1939-Aug., 1939
Raw cotton.....	343	241	Crude rubber.....	265	163
Iron and steel semimanufactures	309	153	Coffee.....	138	137
Aircraft.....	246	77	Silk.....	133	90
Chemicals.....	219	134	Sugar.....	131	120
Metal-working machinery.....	189	101	Newsprint paper..	128	108
Electrical machinery.....	115	104	Tin.....	105	61
Lubricating oil....	112	75	Woodpulp.....	76	75
Copper (ingots, plates, etc.).....	111	77	Wool.....	73	33
Coal (anth. and bit.)	90	53	Undressed furs....	65	44
Crude petroleum..	79	110	Liquors (incl. wines).....	60	60
Agricultural machinery.....	77	74	Copper.....	57	38
Gasoline and other motor fuel.....	77	100	Inedible expressed oils.....	54	45
Motor trucks.....	75	80	Hides and skins..	51	39
Cotton manufactures...	63	47	Diamonds.....	47	34
Explosives and firearms.....	62	11	Burlap.....	40	29
Iron and steel advanced mfrs...	62	46	Ferro-alloys.....	37	19
Passenger automobiles.....	62	104	Nickel.....	33	15
Tobacco.....	60	148	Fertilizer.....	32	37
Wheat and wheat flour.....	36	92	Cocoa.....	30	25
Corn.....	29	55	Bananas.....	29	29
Total 20 exports	2,416	1,880	Total 20 imports	1,578	1,201
All other exports	1,513	1,026	All other imports	951	923
All exports...	3,929	2,906	All imports...	2,529	2,124

*Domestic exports only. **Imports for consumption.

For the first year of the European war (September, 1939-August, 1940, inclusive) aggregate domestic exports from this country amounted to \$3,929,000,000, which was \$1,025,000,000 more than the total in the corresponding months of 1938-39, and exceeded the value for any comparable period since 1929-30. Imports for domestic consumption during the twelve months since the war began amounted to \$2,529,000,000, compared with

Percentage Changes in Average Daily Construction Contract Awards

	37 States August, 1940 compared with		N.Y. and Northern N.J. August, 1940 compared with	
	July, 1940	Aug., 1939	July, 1940	Aug., 1939
Building				
Residential.....	+ 1	+ 16	+17	- 21
Commercial.....	-32	+ 31	-56	- 16
Industrial.....	-26	+267	- 1	+384
Public purpose*.....	- 7	+ 13	+ 6	- 14
All building.....	-10	+ 33	0	- 8
Engineering				
Public works.....	+29	+ 21	- 9	- 68
Public utilities.....	-36	+ 12	-86	+246
All engineering.....	+11	+ 19	-44	- 64
All construction.....	- 4	+ 28	-13	- 29

*Includes educational, hospital, public, religious and memorial, and social and recreational building.

daily average rate of construction contract awards in New York and Northern New Jersey during August declined rather sharply—29 per cent—as compared with the corresponding month last year, although large year-to-year increases were reported in the industrial building and public utilities groups. As compared with July, the daily rate of total awards in this area declined 13 per cent, owing to a drop of 44 per cent in contracts for heavy engineering construction. Residential building contracts in August were 21 per cent less than a year previous but increased 17 per cent over July.

During the first two weeks of September the daily average rate of construction contract awards in the 37 States was slightly higher than in August, owing to an increase of 16 per cent in residential building. Non-residential building and heavy engineering projects declined 4 per cent and 9 per cent, respectively. Awards of all classes ran 17 per cent above the corresponding period of last year, as gains in residential and nonresidential building exceeded a decline in heavy engineering construction.

Commodity Prices

Commodity prices displayed a strengthening tendency during September—especially near the end of the month—reflecting in part no doubt the influence on industrial raw material prices of enlarged demands for National defense preparations and the effect on agricultural prices of various Government loans. The Bureau of Labor Statistics daily index of 28 basic commodities was up about 2 per cent for the month as a whole, reaching the highest level since early in July.

The movement of a relatively large volume of wheat into the Government loan stock during September apparently outweighed the effect of the publication by both the Canadian and United States Governments of increased wheat crop estimates, and domestic wheat quotations advanced to the highest levels in about three months. Spring wheat at 83½ cents a bushel in Minneapolis was 9⅓ cents higher than at the end of August, and winter wheat in Kansas City increased 6½ cents during the month to 79⅝ cents a bushel. Corn fluctuated irregularly around the level prevailing at the end of August. Sugar prices rose to 2.75 cents a pound from 2.66 cents at the end of August, apparently reflecting the opinion that further legislation limiting sugar supplies will be passed before Congress adjourns. Quotations for hogs, on the other hand, reacted downward from the comparatively high levels of a month ago, virtually canceling the rise occurring during August. Owing to the apparent tendency of cotton growers to withhold their late crop this year from the "free market", combined with the effect of accelerated domestic consumption, cotton prices in the latter part of September reversed the downward tendencies prevailing since the middle of June. The average spot price for cotton in 10 Southern markets at 9.24 cents a pound at the end of September was down only 19 points from August 31, while both the spot and December future quotations in New York were up somewhat for the month. Wool prices continued to advance throughout September, and wool tops at \$1.19 a pound were 15 cents higher than at the

end of August. Prices of silk fluctuated irregularly, but closed the month with little net change.

Metal markets as a whole continued to show the strength apparent since the middle of August. Scrap steel at \$20.50 a ton in Pittsburgh was up \$1.75 during September. Zinc quotations, reflecting especially reports of low stocks, were advanced twice during the month from an initial price of 6½ cents a pound to 7¼ cents at the end of September—the highest price for this metal since September, 1937. Lead prices were increased from 4.90 to 5 cents a pound, and the price of domestic copper was advanced 1 cent to 12 cents a pound. Tin was fractionally higher than at the end of August.

Department Store Trade

For the three weeks ended September 21, total sales of the reporting department stores in this District were about 6 per cent higher than in the corresponding 1939 period, and the daily rate of sales for this portion of September showed nearly all of the customary seasonal increase over the unusually large August sales.

Total August sales of the reporting department stores in this District were about 14 per cent higher than in August, 1939, the most favorable year-to-year comparison in a number of months, and the daily rate of sales showed considerably more than the usual seasonal advance from the July average, reaching the highest level since 1931. Sales of the leading apparel stores in this District were 16 per cent higher than last year, the largest year-to-year percentage increase in nearly four years.

Locality	Percentage change August, 1940 compared with August, 1939		Per cent of accounts outstanding July 31 collected in August	
	Net sales	Stock on hand end of month	1939	1940
New York and Brooklyn.....	+12.6	+ 3.4	42.9	42.9
Buffalo.....	+ 9.9	+ 3.5	41.8	41.1
Rochester.....	+16.3	+ 4.9	54.4	52.0
Syracuse.....	+25.9	+ 6.6	37.7	37.3
Northern New Jersey.....	+16.9	+ 7.2	35.6	31.1
Bridgeport.....	+28.1	+ 2.7	38.3	39.8
Elsewhere.....	+17.1	- 2.5	31.0	32.3
Northern New York State.....	+12.3	.....	.....	.....
Southern New York State.....	+18.8	.....	.....	.....
Central New York State.....	+27.4	.....	.....	.....
Hudson River Valley District.....	+14.9	.....	.....	.....
Westchester and Stamford.....	+ 6.9	.....	.....	.....
Niagara Falls.....	+17.0	.....	.....	.....
All department stores.....	+14.1	+ 3.9	40.8	39.3
Apparel stores.....	+16.0	- 4.6	37.0	37.4

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

	1939	1940		
	August	June	July	August
Sales (average daily), unadjusted.....	67	89	67	76
Sales (average daily), seasonally adjusted..	90	92	94	101
Stocks, unadjusted.....	74	74	68	76
Stocks, seasonally adjusted.....	78	78	79	80

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

Business Conditions in the United States

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

PRODUCTION and employment in August showed a further rise from the level maintained in June and July and distribution to consumers also increased. Prices of industrial materials were somewhat higher in the middle of September than a month earlier.

INDUSTRIAL PRODUCTION

The Federal Reserve index of industrial production is estimated at 123 in August as compared with 121 in June and July and 111, the low point for the year, in April. This rise has reflected chiefly the direct and indirect effects of the defense program on industries producing durable goods and textiles. Steel production rose further in August as new orders for steel continued in large volume, and for the month as a whole mills operated at 90 per cent of capacity. Following a temporary decline over the Labor Day week, the rate of output advanced to 93 per cent of capacity in the third week of September. In most branches of the machinery industries activity showed a continued expansion in August and there were further sharp increases in shipbuilding and the manufacture of aircraft. With the growth in production of finished durable goods, consumption of nonferrous metals advanced to the highest levels since last winter.

Output of automobiles was in small volume in August owing to the seasonal changeover to 1941 model cars. The low point in production was reached early in August; there was a gradual rise later in that month followed by a sharp advance in the first two weeks of September as most companies began volume production on new models. Lumber production, which had declined in July, rose considerably in August.

Textile mill activity continued to increase in August and was at the highest level since last January. Cotton consumption advanced considerably further and silk deliveries rose from the small volume of recent months. Activity at wool textile mills increased seasonally, following a sharp rise in July, while at rayon mills activity showed a less than seasonal increase but continued at a high level.

Mining of bituminous coal in August was maintained in large volume for the season, while production of anthracite declined. Output of crude petroleum declined somewhat further.

Value of new construction work undertaken in August was at about the same level as in July, according to reports of the F. W. Dodge Corporation and the Federal Reserve Bank of San Francisco. The volume of contracts for public projects continued unusually large and the amount of new private work started was larger than in July. Residential building was at the highest level in recent years, on a seasonally adjusted basis, reflecting further increases in both private and public contracts.

DISTRIBUTION

Distribution of commodities to consumers increased considerably from July to August. Sales at department stores and by mail order houses showed a sharp rise and there was a less than seasonal decline in variety store sales. In the early part of September department store sales continued to increase.

Freight car loadings advanced from July to August when little change is usual. Shipments of coal and miscellaneous freight increased while loadings of grain showed more than a seasonal decline.

COMMODITY PRICES

Prices of several industrial materials, including copper, zinc, steel scrap, lumber, hides, and print cloth, advanced somewhat from the middle of August to the middle of September and, owing partly to seasonal developments, prices of foodstuffs were also higher. Prices of most other commodities showed little change in this period, although some paper items were reduced and several new models of automobiles were announced at advanced prices.

AGRICULTURE

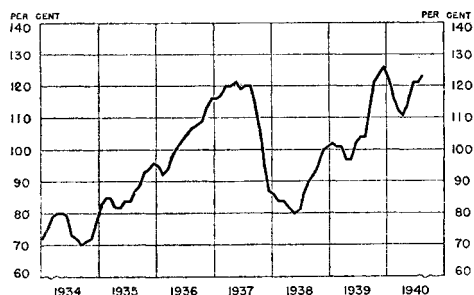
Production prospects for most major crops increased during August, according to the Department of Agriculture. On the basis of September 1 conditions the cotton crop was estimated at 12,772,000 bales, about 1,340,000 bales more than was indicated at the beginning of August. Preliminary estimates by the Department indicate that cash farm income, including Government payments, will be about \$8,900,000,000 for the calendar year 1940 as compared with \$8,540,000,000 last year.

BANK CREDIT

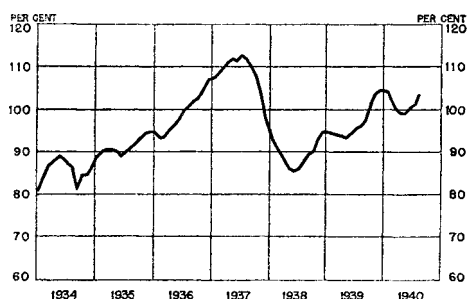
Commercial loans increased somewhat at banks in New York City and in 100 other leading cities during the four weeks ended September 11, while their holdings of investments showed little change.

UNITED STATES GOVERNMENT SECURITY PRICES

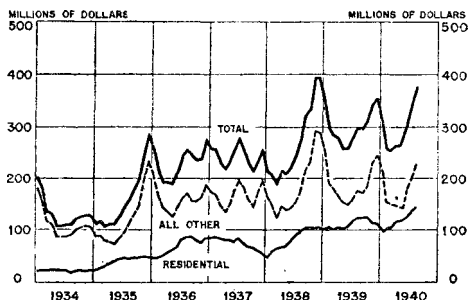
United States Government security prices increased in the last half of August and the first week in September and were steady in the second week in September.



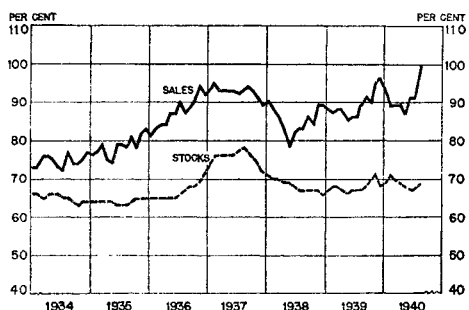
Index of Physical Volume of Industrial Production, Adjusted for Seasonal Variation (1935-1939 average=100 per cent)



Index of Number of Factory Workers Employed, Adjusted for Seasonal Variation (1923-1925 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 Value of Department Store Sales and Stocks, Adjusted for Seasonal Variation (1923-1925 average=100 per cent)