

MONTHLY REVIEW

of Credit and Business Conditions

Second Federal Reserve District

Federal Reserve Bank, New York

November 1, 1940

Money Market in October

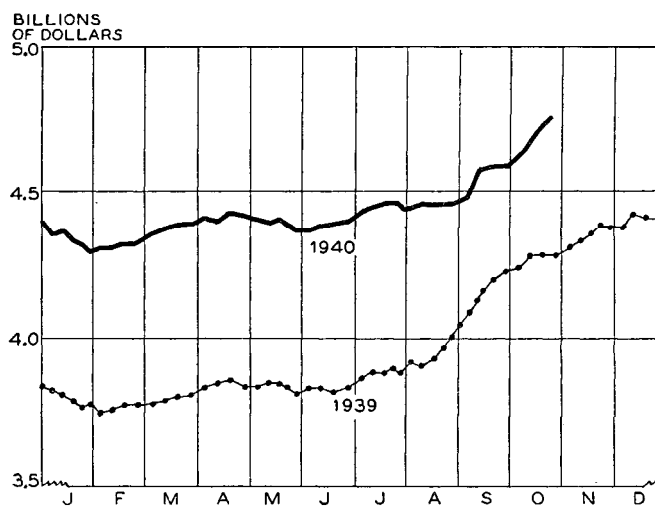
There was considerable interest during October in present and prospective increases in bank loans, arising from improvement in general business conditions and due in part to the National defense program. On October 9, the "Assignment of Claims Act of 1940" became law, and thereby the making of bank loans to finance the expansion of plant and equipment and production of materials for National defense purposes was facilitated. This Act makes it possible for contractors having contracts for Government work to assign their claims for payment by the Government (in amounts of \$1000 or more) to a bank, trust company, or other financing institution (including any Federal lending agency), which assignments can be used as security for loans granted by such lenders. In many cases, banks would have been willing to grant loans to businesses having Government contracts, without the added security of the assignment of claims for payment under these contracts, but the provision for obtaining the assignment of such claims, thereby making the contracts "bankable," undoubtedly widens the field of potential participation of the banks in the financing of the defense program, and to that extent reduces the aid which might otherwise have been needed from Government loan agencies.

The overall net increase in the commercial, industrial, and agricultural loans of the weekly reporting banks in principal cities amounted to \$171,000,000 in the four weeks ended October 23. Despite the October increase, however, and a sizable increase in the second week of September which included a large term loan of a refunding character, the rise this year from the seasonal low point of the end of May has been less than the rise which occurred in the corresponding period a year ago, as the accompanying diagram indicates. Last year there was a very sharp advance in loans, beginning at about the time of the outbreak of the war which caused a number of businesses to accumulate inventories, thereby increasing their needs for funds. On the current rise, "commercial loans", while well above the level of a year ago, have not yet reached the peak of October, 1937; despite the inclusion in the reported figures of a considerable known volume of "term" loans, some of which represent refunding operations, the total on October 23 remained about \$120,000,000 below the 1937 high. Aggregate commercial loans of reporting banks outside New York are about at the 1937 peak, but such loans made by New York City banks remain lower.

In addition to the increase in commercial loans, the weekly reporting banks also increased their holdings of United States Government securities by \$155,000,000 during the four weeks ended October 23, with the result that, after allowing for minor changes in other earning assets, the total of their loans and investments rose \$323,000,000 to \$24,489,000,000, or approximately \$60,000,000 above the previous peak reached in October, 1929. Of the rise in United States Government securities, \$83,000,000 represented an increase in Treasury bill holdings, which had been reduced in the previous two months; \$31,000,000 represented a net rise in Government bond holdings in excess of the reduction which occurred in Treasury note holdings accompanying the exchange by the Treasury of Treasury notes maturing December 15, 1940, for 2 per cent Treasury bonds of 1953-55, which was carried out during the week ended October 9; and \$41,000,000 represented an increase in holdings of fully guaranteed obligations of the United States.

EXCESS RESERVES

Further increases in excess reserves of all member banks occurred during October, and on the October 23 statement date the total broke through the previous high of \$6,880,000,000 reached on July 17, advancing to \$6,940,000,000. The rise in October was at a somewhat faster rate than had prevailed in the preceding advance



Commercial, Industrial, and Agricultural Loans of Weekly Reporting Banks in 101 Leading Cities (Latest figure is for October 23)

from the temporary low of \$6,330,000,000 to which excess reserves had been reduced in early August by the cash payments for new Government security issues. The principal factors in the rise in member bank excess reserves during the four weeks ended October 23 were heavy disbursements by the Treasury from its previously accumulated cash holdings and balances with the Reserve Banks, totaling \$475,000,000, and a further rise in the gold stock of \$262,000,000. Meanwhile, a part of the resulting addition to reserve funds was absorbed by a continued rise in the amount of currency outstanding to a new high, sales of \$82,000,000 of Government securities from the Reserve System's holdings, an increase in foreign and other nonmember deposits at the Reserve Banks, and a sizable increase in member bank reserve requirements, which accompanied increases in adjusted demand and interbank deposits to new high levels.

MONEY RATES

Short term money rates were unchanged during October, except for further reduction in the rates on weekly issues of Treasury bills to a point where, for the last four issues floated in October, no yield was obtainable on part of the issues, and negative yields prevailed for the remaining parts of these issues. Yields on Treasury notes of 3 to 5 year term showed further declines for the month, and yields on high grade bonds likewise tended lower.

Money Rates in New York

	Oct. 31, 1939	Sept. 30, 1940	Oct. 30, 1940
Stock Exchange call loans.....	1	1	1
Stock Exchange 90 day loans.....	*1 1/4	*1 1/4	*1 1/4
Prime commercial paper 4-6 months...	3/8-3/4	3/8-3/4	3/8-3/4
Bills—90 day undorsed.....	3/8	3/8	3/8
Average yield on Treasury notes (3-5 years).....	0.64	0.45	0.40
Average yield on Treasury bonds (not callable within 12 years).....	2.49	2.20	2.18
Average rate on latest Treasury bill sale 91 day issue.....	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.....	3/8	3/8	3/8

* Nominal † Negative yield

GOVERNMENT SECURITIES

During October Government security prices generally showed continued firmness. Price fluctuations were narrow; the price range for long term Treasury bonds amounted to only 1/2 of a point on the average and for intermediate term Treasury bonds to less than 3/8 of a point. The average price of long term Treasury bonds advanced irregularly early in the month until on October 7 it was within a small fraction of a point of the 1940 high attained in April, and not far from the record high for this class of bond reached in June, 1939. However, the average price declined a total of 1/2 a point by October 11, following reports of the movement of German troops into Rumania. Somewhat higher levels were reached later in the month but no consistent tendency was apparent.

Treasury note prices advanced slightly through October 7. In succeeding sessions and during the middle of

the month they lost part of this gain, but the advance was resumed on October 19. The average yield on 3 to 5 year Treasury notes, after an irregular decline during much of October, stood on October 30 at 0.40 per cent.

Treasury bill financing during October was composed of five weekly issues, each in the amount of approximately \$100,000,000 and each a replacement of similar maturities. The bills dated October 2 were all awarded on par bids, and accepted bids for the following four issues were at prices slightly above par and at par.

On October 24, the Treasury, on behalf of the United States Housing Authority, offered for subscription at par and accrued interest, \$100,000,000 of 1/4 per cent one year notes of the Authority, dated November 1. This issue, fully guaranteed by the United States, was heavily oversubscribed.

COMMERCIAL PAPER AND BILLS

Commercial paper rates remained virtually unchanged during October; average grade prime 4 to 6 month commercial paper moved at both 1/2 and 5/8 per cent, and the choicest grade of material, when available, was sold at 3/8 per cent. The continued strong bank investment demand absorbed without delay the moderate quantity of new notes that dealers were in position to offer for sale in the open market. At the end of September commercial paper concerns had paper outstanding in the aggregate sum of \$250,700,000, the largest amount since May, 1938. The September 30 figure was about 3 per cent larger than a month previous and 20 per cent larger than a year ago.

The bill market remained very inactive, owing primarily to the tendency of acceptors to keep new bills for their own account. Dealers' quoted rates for bankers acceptances held largely nominal at previously quoted levels. The total of bankers acceptances outstanding on September 30, at only \$177,000,000—a new low for at least 20 years—was about 3 per cent smaller than a month previous and 18 per cent under the figure for a year ago. Decreases in outstanding bills drawn to finance exports and in those based on goods stored in or shipped between foreign countries accounted for the larger portion of the decline from a year ago.

Security Markets

Price fluctuations in the security markets in October were narrow and indecisive. In general, domestic bond quotations were firmer than share prices. The volume of trading activity last month averaged higher than in September.

The average price of common stocks in the Standard Statistics 90 stock index showed an irregular decline of almost 4 per cent between October 3 and 9 on disturbing news from the Balkans and the Far East. During the remainder of the month stocks advanced irregularly and at the end of October stock prices reached the highest level since early in May.

Prices of medium grade domestic corporation bonds varied little, on balance, in the first half of October, but firmer tendencies prevailed later in the month. On October 31 Moody's Investors Service average price of

Baa issues was at the highest point since February, 1937. Prime corporate bonds, those classified as Aaa by Moody, remained at September record highs during much of the first half of October. The average price moved up 1/4 of a point further on October 16 and maintained that level during most of the remainder of the month. High grade municipal bond prices continued their September advance into new high ground.

New Financing

The volume of corporate and municipal new security issues floated during October rose sharply to \$525,000,000, the highest level in almost a year and a half. Both classifications of securities participated in the advance. Corporate flotations amounted to \$362,000,000, the greatest total for any month since June, 1937. The increase was accounted for by refunding operations; the volume of funds sought for corporate new capital purposes amounted to only \$40,000,000, or substantially less than in either of the two previous months.

On October 9, public offering was made of \$108,000,000 Southern California Edison Company, Ltd., refunding bonds maturing in 1965. This issue represented the largest corporate offering since August, 1939. By October 24, underwriters for the offering were able to announce that subscription books had been closed and price restrictions removed. Details of this and other major new security issues marketed during the month appear in the following table.

CORPORATE

- \$108,000,000 Southern California Edison Company, Ltd., 3 per cent first and refunding mortgage bonds of 1965, priced at 104 to yield 2.78 per cent, for refunding
- 45,000,000 Youngstown Sheet and Tube Company 3 1/4 per cent first mortgage bonds due in 1960, priced at 103 to yield 3.05 per cent, for refunding
- 29,000,000 Columbus and Southern Ohio Electric Company 3 1/4 per cent first mortgage bonds of 1970, priced at 107 to yield 2.90 per cent, for refunding
- 27,333,000 New York Connecting Railroad Company 3 1/2 per cent first mortgage bonds of 1965, priced at 102 to yield 3.38 per cent, for refunding
- 20,000,000 Great Northern Railway Company 4 per cent collateral trust bonds consisting of \$7,000,000 serial bonds maturing from 1941 to 1951, priced to yield 0.50 per cent to 3.60 per cent; and \$13,000,000 term bonds of 1952, priced at 103 to yield 3.69 per cent; for refunding
- 18,100,000 Central Maine Power Company 3 1/2 per cent first and general mortgage bonds of 1970, priced at 107 1/2 to yield 3.11 per cent, chiefly for refunding

MUNICIPAL

- \$60,000,000 New York City 3 per cent serial water bonds, maturing from 1941 to 1970, awarded at a net interest cost of 2.97 per cent and reoffered to yield from 0.30 per cent to 3.10 per cent, for new capital purposes
- 42,592,000 City of Los Angeles Department of Water and Power revenue bonds, consisting of \$20,592,000 of 2 1/2 per cent and 2 3/4 per cent bonds, due serially from 1941 to 1976, reoffered at prices to yield 0.25 per cent to 2.85 per cent; and \$22,000,000 of 3 per cent bonds due in 1976, priced at 102.75 to yield 2.88 per cent to maturity; for refunding.

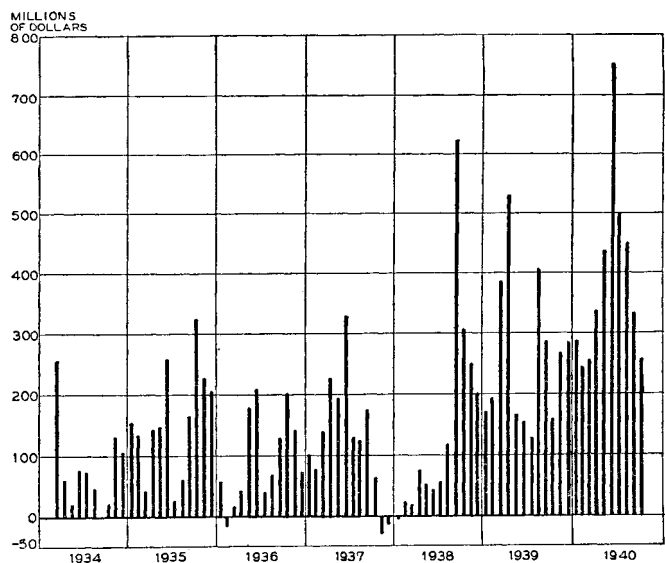
Not included in the \$525,000,000 aggregate of new financing was \$140,000,000 of short term securities, the bulk of which was accounted for by \$100,000,000 State of New York 0.20 per cent notes due in May, 1941, and \$28,000,000 of Federal Intermediate Credit bank 0.75 per cent nine and twelve month debentures sold at prices to yield 0.30 per cent and 0.35 per cent, respectively.

Forthcoming issues indicated by public announcements include approximately \$99,000,000 of Detroit Edison Company refunding bonds, an issue of around \$75,000,000 under a refinancing program of the United Gas Corporation, and about \$53,000,000 of Boston Edison Company refunding bonds. In addition to these, a somewhat longer and more diversified list of stock issues than usual is pending for offering to stockholders or to the public.

Gold Movement

During October the volume of imports of gold into the United States declined further from the peak reached last June, and at the same time the amount of gold held under earmark at the Federal Reserve Banks for foreign account increased about \$115,000,000 to a total of approximately \$1,775,000,000. Consequently, the increase of about \$255,000,000 in the gold stock of the United States which occurred during the month was the smallest for any month since March of this year, as the accompanying diagram indicates.

Following imports of \$78,400,000 in the week ended September 25, of which \$50,400,000 came from Canada, receipts during the four weeks ended October 23, as reported by the Department of Commerce, totaled \$307,600,000, of which \$221,500,000 came from Canada, \$17,800,000 from Portugal, \$16,500,000 from Argentina, \$14,900,000 from Japan, \$14,800,000 from Australia, \$5,700,000 from Russia, \$5,000,000 from South Africa, \$2,200,000 from the Philippines, \$1,700,000 from Spain, \$1,300,000 from the United Kingdom, and \$1,100,000 from Peru.



Monthly Changes in United States Gold Stock (October, 1940, estimated)

Foreign Exchanges

Possibly the most significant development in an otherwise very dull foreign exchange market during the past month was the movement of certain foreign funds from this country as a result of fears that the situation abroad, particularly in the Balkans, might lead to extension of the United States' "freezing" regulations to additional foreign accounts.

Swiss exchange continued in demand during October, accompanying a further substantial repatriation of funds from this market to Switzerland. The rate for the Swiss franc was permitted to appreciate gradually from \$0.2296 to \$0.2323, a level 81 points above that prevailing in mid-June and the highest since March, 1938, prior to the German absorption of Austria. The free rate for the Argentine peso, after having reacted temporarily to \$0.2285 during the previous month, recovered to as high as \$0.2386 during the first half of October, reportedly stimulated by the transfer of European capital from New York to Argentina. By the end of the month, however, the rate had receded to \$0.2320. The Mexican peso, which opened the month at about \$0.2032, firmed to about \$0.2062 and held near this level throughout the second half of the month. The strength in Mexican exchange is reported to have reflected primarily an improved outlook for political stability in Mexico. Among the other Latin American currencies, the discount on the Cuban peso narrowed to $7\frac{1}{8}$ per cent on October 7, accompanying reports of negotiations for a sizable Export-Import Bank credit to the Cuban Republic, but subsequently widened to around 9 per cent for the remainder of the month.

The Chinese dollar advanced substantially against both the pound sterling and the United States dollar during October. While the announcement on October 8 of the British intention to reopen the Burma Road apparently lent considerable strength to Chinese exchange, the accentuated Far Eastern tension may also have caused some accumulation of Chinese currency for fear that Chinese funds held abroad might become unavailable. The Shanghai dollar was quoted at slightly over 6 cents at the end of the month, as against $5\frac{5}{8}$ cents a month earlier.

In desultory trading, little change occurred in the free rate for the pound, the fluctuations of which held within a narrow range of \$4.02 $\frac{1}{2}$ -\$4.04 $\frac{1}{2}$. The unofficial discount on the Canadian dollar also showed relatively little fluctuation during October.

Central Bank Rate Changes

On September 16 the discount rate of the National Bank of Bulgaria was lowered to $5\frac{1}{2}$ from 6 per cent, the latter rate having been in effect since August, 1935, and on October 22 the National Bank of Hungary reduced its rate to 3 from 4 per cent, which rate had prevailed since August, 1935.

According to a press report, the discount rate of the National Bank of Denmark has been lowered from $4\frac{1}{2}$ to 4 per cent, apparently effective as of October 16. Recent publications report a reduction on August 1 by the Central Reserve Bank of Peru of its discount rate from 6 to 5 per cent (the first change since May, 1932), and

a reduction on September 12 by the National Bank of Rumania from $3\frac{1}{2}$ per cent (prevailing since May, 1938) to 3 per cent.

Foreign Trade

During September both merchandise exports and imports of this country declined sharply from the levels of the previous month and exports of agricultural products were at the lowest level, for September, in at least twenty-five years. Exports, at a total value of \$295,000,000, were \$55,000,000 less than in August—despite a seasonal tendency toward expansion at this time of year—and the smallest for any month since last November. Imports declined \$26,000,000 from the August figure to \$195,000,000, the smallest value for imports since September, 1939. Both exports and imports, however, remained somewhat higher than a year ago. Shipments to the United Kingdom, Canada, Japan, and a number of other countries were reported to have been smaller than in August. The export balance of \$100,000,000 was less than that of either the previous month or September, 1939.

The largest single factor in the decline during September in total exports was a reduction of \$14,500,000 in shipments abroad of aircraft, which were valued at \$37,000,000 in August. Exports of copper showed an exceptionally heavy decline, from the peak of \$13,000,000 in the previous month to less than \$3,000,000 in September, and were about one-third the value a year ago. In a smaller degree reductions from the August levels extended to a wide variety of exports, including especially semimanufactures of iron and steel, lubricating oil, certain types of machinery, woodpulp, paper products, and tobacco. However, shipments of chemicals, metal-working machinery, and automobiles were up somewhat from the previous month. Exports of raw cotton, valued at \$5,000,000, showed much less than the customary gain at this season, and were \$30,000,000 less than in September, 1939. In fact, exports of all agricultural products, combined, in September of this year equaled only two thirds of the value of cotton exports in September of last year. On the other hand, a tenfold increase over the small figures of September, 1939 was recorded in exports of firearms and explosives; shipments of aircraft, iron and steel products, and metal-working machinery were from two to three times as large as a year ago.

With respect to imports, material gains over both the previous month and September, 1939, were confined chiefly to such commodities as burlap, rubber, tin, and copper. Receipts of unmanufactured wool and of distilled spirits were also larger than in the previous month, but were below the figures of a year ago. Imports of crude petroleum and cocoa, although smaller than in August, showed sizable increases over a year previous. Sugar and silk receipts were considerably less than in August and showed exceptionally large reductions compared with September of last year. The majority of the remaining imports registered either only slight changes or decreases compared with the previous month and with September, 1939.

For the first year of the war, exports from the United

States to the British Empire countries amounted to \$1,775,000,000, or 44 per cent of the aggregate value of exports to all countries. (In July and August the proportion of exports to the British Empire rose to about two thirds of the total.) One half of the increase over the 1934-38 average in the value of shipments to all countries was due to larger exports to the British Empire, as is indicated in the accompanying table, although Latin American purchases from this country showed an even larger percentage increase. Imports into the United States from the British Empire in the first year of the war were valued at \$1,051,000,000, which represented a 33 per cent increase over the 1934-38 average, and imports from Latin America showed a 25 per cent increase. Imports from all other countries were fractionally less than in 1934-38. Compared with the 1926-30 averages, both exports and imports with all three groups of countries were lower.

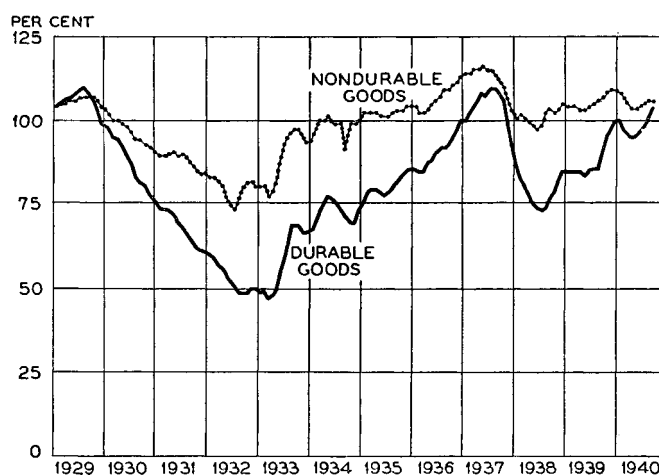
United States Merchandise Trade with the British Empire, Latin America, and All Other Countries
(In millions of dollars)

	Value first year of war	Dollar change from		Percentage change from	
		First year of the war (Sept., 1939-Aug., 1940 incl.) compared with averages for years 1926-30 (incl.) and 1934-38 (incl.)			
		1934-38 av.	1926-30 av.	1934-38 av.	1926-30 av.
Exports to					
British Empire	1,775	+677	-252	+62	-12
Latin America	790	+320	- 61	+68	- 7
All other countries	1,451	+356	-448	+33	-24
All countries	4,016	+1,353	-761	+51	-16
Imports from					
British Empire	1,051	+261	-303	+33	-22
Latin America	650	+132	-356	+25	-35
All other countries	924	- 2	-749	0	-45
All countries	2,625	+391	-1,408	+18	-35

Employment and Payrolls

During September, working forces and wage payments in New York State factories increased more than seasonally and reached the highest levels since November, 1929. The gains over August of 4½ per cent in employment and 6 per cent in payrolls were attributed to the continued stimulus of the National defense program in addition to the usual autumn acceleration of activity. Gains were widely distributed; all industrial districts in the State and all industrial groups showed increases in employment, in payrolls, or in both. The important metals and machinery group added to working forces for the fifth consecutive month; the largest gains occurred at shipyards and at aircraft and automotive plants. Canneries, textile plants, and women's apparel firms reported seasonal increases in employment, but up-State men's clothing concerns, which had already passed the peak of their fall season, employed fewer persons during September. Factory employment as a whole was 11 per cent above the September, 1939 level, and payrolls were 19 per cent greater.

More than 600,000 persons were added to working forces in nonagricultural occupations throughout the



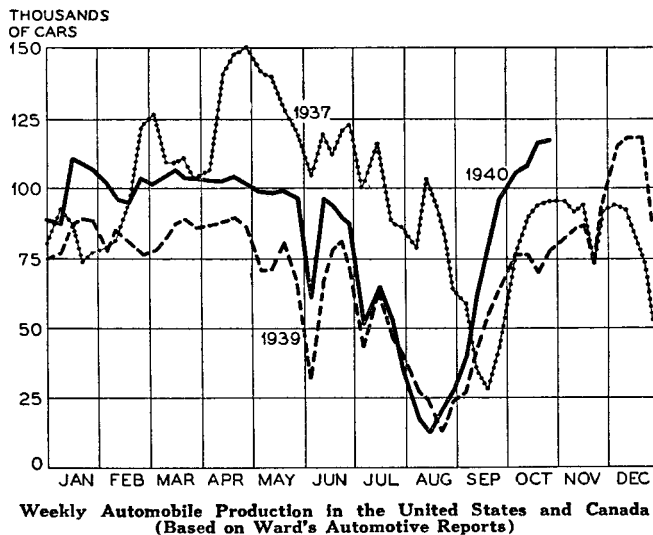
Employment in Durable and Nondurable Goods Industries, Adjusted for Seasonal Variation (1923-25 average=100 per cent)

United States in September, according to estimates of the Bureau of Labor Statistics. Together with the August gain, this represents an increase of over 1,000,000 workers in two months. The gain in the summer and early autumn this year was one of the largest ever recorded. All major fields of employment showed increases, but the largest part of the September gain occurred in manufacturing and in retail and wholesale trade.

United States factory employment increased during September for the fourth consecutive month, rising 3½ per cent to the highest level since October, 1937. Factory payrolls were 5½ per cent greater than in August, and nearly equal to the 1937 peak. As the accompanying diagram indicates, employment in durable goods manufacturing has benefited much more from the current upswing in business than has employment in nondurable goods industries. While the number of workers in the durable goods classification was 17 per cent greater than in September, 1939, nondurable goods working forces were at approximately the same level as they were during the first month of the war. Most of the industries stimulated by the war and the National defense program are in the durable goods category; the aircraft, machine tool, engine, and shipbuilding industries have all reported sizable employment gains month after month. Foundries, sawmills, electrical manufacturing plants, and steel mills have also added considerably to their working forces in recent months. In addition there were seasonal increases in employment in September in the manufacture of automobiles, cotton textiles, confectionery, and women's clothing. Compared with September, 1939, total factory employment in the United States was 7 per cent higher and payrolls were 16½ per cent larger.

Production and Trade

Preliminary evidence suggests that the acceleration of National defense preparations in October resulted in a further advance in the general level of business activity. Steel mills were increasingly active during the month and by the final week operations were proceeding at 95½ per cent of capacity, or at a higher rate than at any time



since 1929. Owing to the increased capacity of the industry, actual production of steel ingots is larger now than in the earlier year. Automobile assemblies continued to mount in October, as is shown in the accompanying diagram. The steady rise in automobile production from the low point for the year had continued for eleven weeks by October 26, whereas the comparable advance last year ran for seven weeks, and in 1937 the upturn was of only five weeks' duration. Reflecting the influence of National defense orders and increased civilian demand, mill sales of textile goods continued in heavy volume in October; sales of cotton gray goods were reported in excess of output, and many woolen mills were said to have operated at near capacity rates. Railroad loadings of merchandise and miscellaneous freight increased more than usual during the four weeks ended October 26, but the movement of bulk freight declined owing to a reduction in coal shipments. Electric power production gained over September.

The upward movement in the general level of business activity continued in September, although the advance in this bank's index of production and trade was somewhat less pronounced than in the preceding month because of a rather sharp decline in foreign trade and the failure of countrywide retail trade to expand as much as usual following the sharp rise in August. The index for September is placed at 94 per cent of estimated long term trend, as compared with 93 in August, 89 in September, 1939, and 95 at the peak reached in December, 1939.

In production, the most pronounced gains were again evident in durable goods industries which continued to benefit from the stimulation of war and National defense orders; activity at shipyards, airplane factories, and machine tool plants expanded still further, and steel mill operations averaged over 90 per cent of capacity. Among nondurable goods lines, wool consumption expanded substantially further to the highest rate since early 1937, reflecting business placed by the military services, but cotton mill activity, although at a high level, failed to increase as much as usual for this time of the year. The rise in the index of consumers' durable goods production

was largely accounted for by the exceptional speed with which new model passenger car production reached large proportions.

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

	1939	1940		
	Sept.	July	Aug.	Sept.
Index of Production and Trade	89	91	93 _p	94 _p
Production of:				
Producers' durable goods.....	78	91	94 _p	96 _p
Producers' nondurable goods.....	98	98	99 _p	100 _p
Consumers' durable goods.....	66	68	73 _p	79 _p
Consumers' nondurable goods.....	96	95	93 _p	95 _p
Primary distribution.....	86	89	90 _p	87 _p
Distribution to consumer.....	93	92	96 _p	95 _p
Industrial Production				
Steel.....	94	118	115	114
Automobiles <i>r</i>	84	78	56	117
Bituminous coal.....	91	95	97	95 _p
Crude petroleum.....	88	86	86	89 _p
Electric power.....	96	99	100 _p	100 _p
Cotton consumption.....	110	113 _r	115	112
Wool consumption.....	125	110	115	133 _p
Shoes.....	103 _r	102	100 _p	95 _p
Meat packing.....	97	97	97	101
Tobacco products.....	92	89	89	90
Manufacturing Employment				
Employment.....	91	94	96	97 _p
Man-hours of employment.....	86	89	92	95 _p
Construction				
Residential building contracts.....	51	55	60	58
Nonresidential building and engineering contracts.....	62	71	75	60
Primary Distribution				
Ry. freight car loadings, mdse. and misc. <i>r</i>	85	84	85	87
Ry. freight car loadings, other.....	92	95	94	95
Exports.....	83	108	113	85 _p
Imports.....	80	81	80	74 _p
Distribution to Consumer				
Department store sales (U. S.).....	90	89	97	97
Grocery chain store sales.....	97	96	99	95 _p
Variety chain store sales <i>r</i>	100	95	106	99
Mail order house sales.....	101	94	103	98
New passenger car sales.....	68	82	61	79
Velocity of Deposits*				
Velocity of demand deposits, outside New York City (1919-25 average=100).....	60	53	53	55
Velocity of demand deposits, New York City (1919-25 average=100).....	34	24	23	25
Cost of Living and Wages*				
Cost of living (1935-39 average=100) <i>r</i>	104	104	104	104
Wage rates (1926 average=100).....	111	114	114 _p	114 _p

p Preliminary *r* Revised * Not adjusted for trend

Building

During September the total value of construction contract awards in the 37 States covered by the F. W. Dodge Corporation survey was 16 per cent below the year's high reached in August, owing to a sharp decline in construction awards for National defense purposes. Contracts for other classes of construction showed little change from the preceding month. In the first half of October, however, there was some increase in construction contracts awarded.

The accompanying chart shows the value of total contract awards monthly since January, 1939, with a segregation of projects for National defense in the June to September period of this year. (In previous months contracts for National defense purposes presumably did not bulk large.) The expansion in construction awards

this summer, which in July and August reached the highest monthly totals since 1930, was due primarily to the stimulating effect of the defense program. In August—the peak so far this year in the volume of defense construction—awards for this purpose accounted for over one quarter of total construction contracts.

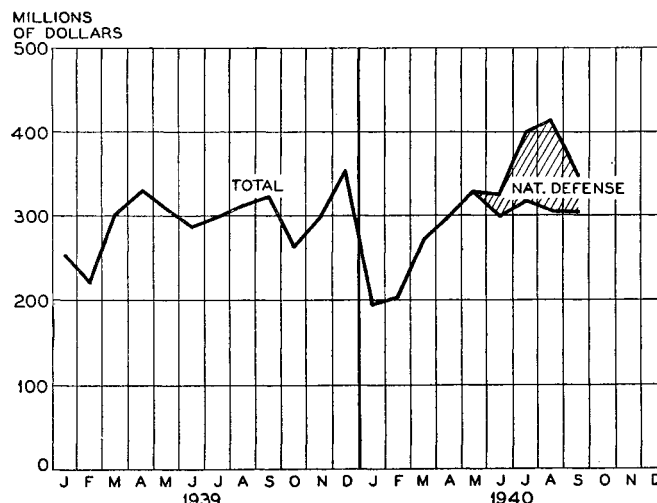
On a daily average basis the value of awards in September was 10 per cent below August, but was 8 per cent above the corresponding month of 1939. Daily average awards for heavy engineering projects were 29 per cent below the August average, owing to a 46 per cent decline in public works contracts, chiefly for projects connected with the defense program.

Owing to a decline in public purpose building, the daily rate of awards for nonresidential building declined 8 per cent from the August average. Compared with September, 1939, however, the latter type of building was up 23 per cent, the most significant increase being in awards for industrial building, which were 83 per cent above the rate in the same month of last year. During the four months from June through September almost one third of all building of this type represented new plant construction and alteration of existing plants to handle defense orders.

The only major category to show an increase in the daily rate of awards during September was residential building, which was 8 per cent above the average of the preceding month and the highest for any September since 1928. Compared with September, 1939, the rate of residential building awards was up 18 per cent. Over 40 per cent of this gain represents an increase in housing projects connected with military establishments.

During September the daily rate of construction contract awards in New York and Northern New Jersey was about unchanged from the August average, but 13 per cent below the same month of last year. Daily average awards in September for residential building were off 5 per cent from the previous month and 31 per cent lower than in September, 1939. Nonresidential building also declined from August, but was up almost one-third over a year ago. The chief factor contributing to this gain was awards for industrial building, which were made at two and a half times the rate of September, 1939. Offsetting the August to September declines in residential and nonresidential building, the daily rate of heavy engineering construction was about one-third higher during September than in the previous month, owing to the inclusion in the utility classification of a large contract for a portion of a rapid transit railroad in Brooklyn. Compared with September, 1939, heavy engineering projects were off 5 per cent.

For the first two weeks of October the daily rate of construction contract awards in 37 States was almost 7 per cent higher than in September. The gain reflected increases of 27 per cent in nonresidential building and 16 per cent in heavy engineering. As a partial offset, residential building awards declined 12 per cent. Construction awards of all classes were 31 per cent above the daily rate in the corresponding two week period of last year, as sizable increases in the nonresidential and heavy engineering categories overbalanced a slight decline in residential building.

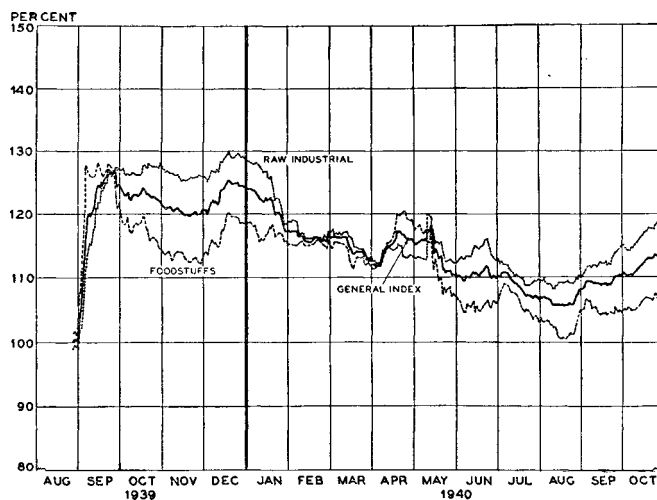


Total Construction Contracts in 37 States, Showing Amounts for National Defense Purposes Beginning in June, 1940 (F. W. Dodge Corporation data)

Commodity Prices

Prices of most basic commodities tended to show strength during October. The Bureau of Labor Statistics daily index of 28 basic commodities rose 2½ per cent further during the month to 113.3 per cent of the prewar (August, 1939) level, or about 7½ per cent above the low point reached during the past summer.

Reflecting continued light offerings in the “free market,” spring wheat in Minneapolis advanced sharply to 89 cents a bushel on October 23—the highest price since the middle of May—but liquidation later led to a downward reaction and the net gain for the month as a whole was only fractional. Fluctuations in prices of winter wheat in Kansas City and of corn in Chicago followed a roughly similar course. Livestock quotations, after advancing sharply in the first half of October, weakened considerably. Hog prices, owing to heavy receipts in the past two weeks, closed the month at \$5.97



Daily Indexes of Wholesale Commodity Prices, Computed by Bureau of Labor Statistics (August, 1939=100 per cent)

a hundredweight, 28 cents lower than at the end of September, although steers at \$11.75 a hundredweight showed a net advance of 75 cents.

Although cotton prices showed some response to foreign developments during October, the Government loan program continued to exert a stabilizing influence on the market. The average price for spot cotton in 10 Southern markets, at 9.16 cents a pound on October 30, was down only slightly for the month. Wool tops advanced progressively from an initial price of \$1.23 to \$1.37 a pound at the end of October. Silk prices, after rising abruptly in the middle of the month, reflecting developments in the Far East, subsequently returned to approximately the end of September level. Hides were especially strong, and showed an aggregate gain of 2 cents for the month to 15 cents a pound, the highest price this year. Sugar quotations recovered 13 points further to 2.88 cents a pound, and rubber was up somewhat.

The metal markets on the whole remained firm throughout October. Lead advanced 50 points further to 5.50 cents a pound—the highest level since January. Scrap steel at Pittsburgh was up 25 cents to \$21.50 a ton.

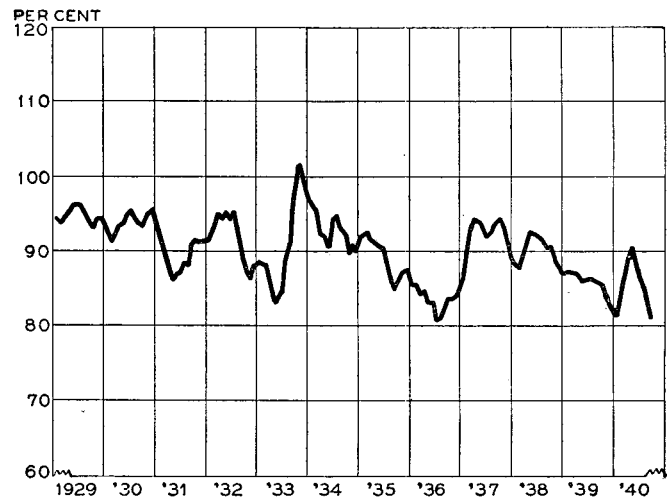
The recent upward movement of industrial raw material prices has carried this subgroup of the Bureau of Labor Statistics daily index to the highest level since early in February, as is indicated in the accompanying chart. This increase, no doubt stimulated in large measure by the defense program, has been the dominant influence in the general advance in the combined index of 28 basic commodities since the middle of September. Foodstuffs as a group, while considerably above the low level reached in August, showed a less pronounced gain during October than industrial materials.

Department Store Trade

For the four weeks ended October 26, total sales of the reporting department stores in this District were about 4½ per cent higher than in the corresponding 1939 period. The daily rate of sales for this portion of October failed to show the usual seasonal gain over September, but improved as the month advanced.

Total September sales of the reporting department stores in this District were approximately 4 per cent higher than a year ago. After allowing for differences in the number of shopping days between this year and last, the year-to-year increase in average daily sales amounted to about 10 per cent, and a further gain in the volume of retail trade, even considering seasonal factors, was indicated. Sales of the leading apparel stores in this District were approximately 2½ per cent lower than in September, 1939, but on an average daily basis were about 3½ per cent higher than last year.

The relation of merchandise stocks held by department stores to the volume of their sales is shown in the accompanying diagram on a seasonally adjusted basis. From a peak reached in the spring of 1938 the ratio of stocks to sales moved irregularly lower through 1939, owing partly to a moderate reduction in stocks, but more



Ratio of Merchandise Stocks to Sales of Reporting Department Stores in the Second Federal Reserve District, Adjusted for Seasonal Variation (3 month moving averages of monthly data; 1923-25 average=100 per cent)

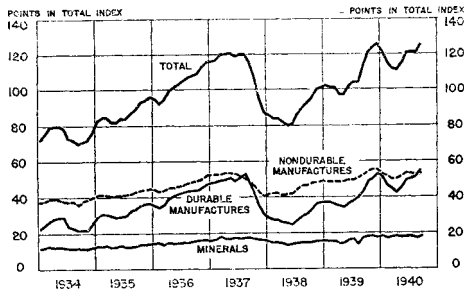
largely to a gradual rise in sales. The advance in the ratio in the early part of this year was occasioned by a substantial decline in sales, stocks remaining fairly steady. The current steep decline in the ratio reflects the sharp advance experienced in department store sales, accompanied by a much less pronounced rise in stocks. The present position of the ratio indicates that stocks of merchandise in department stores in the Second Federal Reserve District are now as low relative to the current volume of sales as at any time in recent years.

Locality	Percentage change September, 1940 compared with September, 1939		Per cent of accounts outstanding August 31 collected in September	
	Net sales	Stock on hand end of month	1939	1940
New York and Brooklyn.....	+ 3.2	+ 3.4	46.7	45.6
Buffalo.....	+ 3.2	+10.6	45.6	41.3
Rochester.....	+ 0.9	+ 7.4	54.4	49.1
Syracuse.....	+ 5.3	+11.4	39.1	38.6
Northern New Jersey.....	+10.4	+10.1	38.1	33.6
Bridgeport.....	+ 1.4	+ 3.9	38.3	37.2
Elsewhere.....	- 0.4	+ 1.4	33.1	34.1
Northern New York State.....	+ 4.4	.....	.....	.....
Southern New York State.....	+ 1.9	.....	.....	.....
Central New York State.....	+ 9.9	.....	.....	.....
Hudson River Valley District.....	- 4.4	.....	.....	.....
Westchester and Stamford.....	- 2.6	.....	.....	.....
Niagara Falls.....	- 3.1	.....	.....	.....
All department stores.....	+ 3.9	+ 5.2	43.7	41.0
Apparel stores.....	- 2.3	- 1.1	39.1	37.8

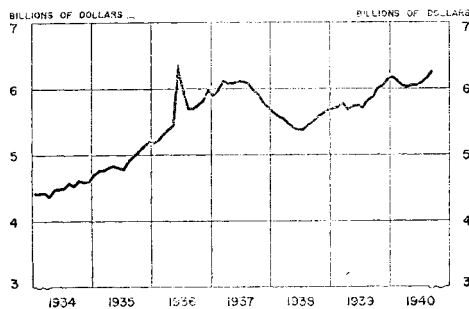
Indexes of Department Store Sales and Stocks, Second Federal Reserve District (1923-25 average=100)

	1939	1940		
	Sept.	July	August	Sept.
Sales (average daily), unadjusted.....	97	67	76	107
Sales (average daily), seasonally adjusted..	93	94	101	103
Stocks, unadjusted.....	81	68	76	85
Stocks, seasonally adjusted.....	78	79	80	81

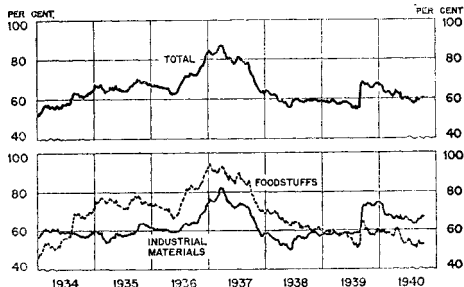
FEDERAL RESERVE BANK OF NEW YORK
MONTHLY REVIEW, NOVEMBER 1, 1940



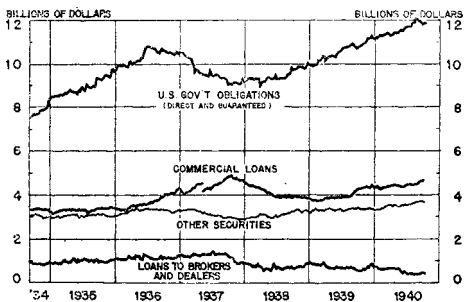
Index of Physical Volume of Industrial Production, Adjusted for Seasonal Variation (1935-1939 average=100 per cent; durable manufactures, nondurable manufactures, and minerals expressed in terms of points in total index)



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



Federal Reserve Groupings of Wholesale Prices of Industrial Materials and Foodstuffs, Computed from Bureau of Labor Statistics Data (1926=100 per cent)



Wednesday Figures for Reporting Member Banks in 101 Leading Cities (Latest figures are for October 9)

Business Conditions in the United States

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

VOLUME of industrial production increased sharply in September, owing mainly to a continued rise in output of durable manufactured products, and this month a further increase is indicated. Prices of basic industrial materials advanced in September and the first half of October.

PRODUCTION

The Board's seasonally adjusted index of industrial production, which for three months had been at a level of 121 per cent of the 1935-39 average, advanced to about 125 per cent in September. In the durable goods industries increases in output were general. Steel production rose to 93 per cent of capacity, and in the first half of October the rate was slightly higher as new orders continued in large volume both from domestic and foreign sources. Steel exports amounted to about 20 per cent of ingot producing capacity in August, the latest month for which data are available, with nearly three quarters of these shipments going to the United Kingdom and Canada. Activity in the machinery, aircraft, and ship-building industries advanced further in September following considerable increases in August, and automobile output increased sharply as volume production of new model cars was rapidly attained. Plants producing railroad cars and locomotives also showed an expansion in activity. Lumber production continued to rise under the impetus of a growing volume of demand for defense program purposes.

Changes in output of nondurable manufactured goods and minerals in September were mixed. At wool textile mills activity advanced sharply further to near the peak reached last autumn, reflecting in part expanding production on Government orders. At cotton mills, however, activity showed less than the usual seasonal rise, following a sharp increase in August, and rayon deliveries declined somewhat owing partly to a strike at plants of one large producer. Shoe production also declined in September. Paper production remained in reduced volume following a high rate of output during the early summer accompanying some inventory accumulation at that time. Output of most metals continued large during September. Crude petroleum production, which had been curtailed sharply during the summer, rose considerably, but coal production, which for several months had been maintained at high levels, showed a smaller increase than is usual at this season.

Value of new construction work started in September was lower than in July and August, according to reports of the F. W. Dodge Corporation and the San Francisco Federal Reserve Bank. The decline occurred chiefly in contracts for defense projects which had been large in the previous two months. Awards for private residential building showed little change from recent high levels. Awards for other private work declined somewhat but continued considerably above the level of a year ago.

DISTRIBUTION

In September and the early part of October department store sales showed somewhat less than the usual seasonal increase from the exceptionally high level reached in August.

Freight car loadings rose somewhat more than seasonally in September, reflecting to a large extent increased shipments of miscellaneous freight. Loadings of coal, which have been large in recent months, showed less than the usual seasonal rise.

COMMODITY PRICES

Prices of most industrial materials, particularly lumber, steel scrap, non-ferrous metals, hides, and wool, continued to advance from the middle of September to the middle of October, and there were also increases in some manufactured products, notably cotton and woolen goods. Wheat prices were higher while prices of most other foodstuffs showed little change.

BANK CREDIT

Commercial loans at reporting member banks in New York and 100 other leading cities continued to increase during the four weeks ended October 9, reflecting in part seasonal demands. Holdings of United States Government obligations decreased further with the result that total loans and investments of these banks showed little change.

UNITED STATES GOVERNMENT SECURITY PRICES

Prices of United States Government securities advanced in the second half of September and the first week in October, rising close to the high level of the year reached early last April.