

MONTHLY REVIEW

of Credit and Business Conditions

Second Federal Reserve District

Federal Reserve Bank, New York

December 1, 1940

Money Market in November

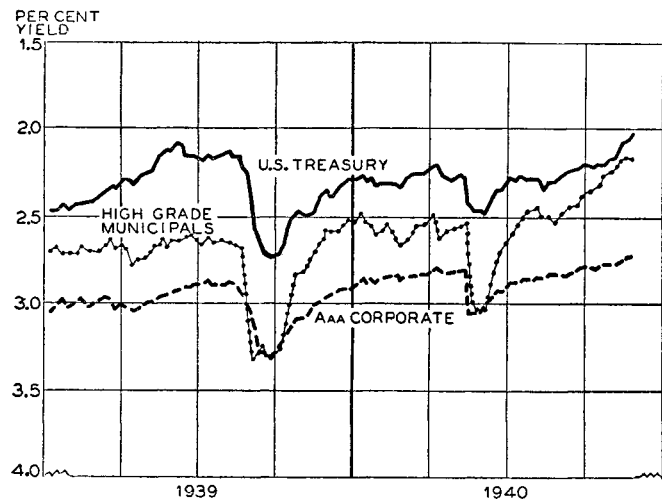
A strong advance occurred in prices of high grade bonds during November, as a result of which new high quotations, and consequently new low yields, were reached by United States Treasury, State and municipal, and prime corporation issues. Two factors, aside from the underlying ease in the basic money market situation, appear to have contributed to this renewed rise in bond prices to new highs of record. First, and probably most important, a sizable demand for such securities which had accumulated and been held in abeyance prior to Election Day was released when election uncertainties were resolved. Second, shortly after Election Day the statement by the Secretary of the Treasury that he favored and would seek legislation to terminate tax exemption of income received from future issues of United States Government as well as State and municipal bonds caused some increase, at least of a temporary nature, in the demand for outstanding tax exempt obligations. Another possible factor, later in the month, was the discussion concerning interest rates on loans to finance National defense contracts, which appears to have been interpreted in some quarters as assuring the continuation of very low money rates.

At the time of the sharpest rise in United States Government securities—during the second week of November—the Reserve System open market investment account sold \$73,000,000 of such securities from its holdings, and in several other recent weeks sold smaller amounts, the net result being a reduction of \$148,000,000 in the System Account holdings for the five weeks ended November 27. During this same five week period, the direct Government security holdings of the reporting member banks in New York City were increased \$158,000,000, and, in the four weeks ended November 20, those of reporting banks in other leading cities rose \$82,000,000, indicating aggregate purchases by these banks considerably in excess of the sales from Federal Reserve holdings. In addition, the reporting banks' holdings of Government guaranteed securities rose \$83,000,000 from October 23 to November 20, chiefly at banks in New York, presumably reflecting purchases of the new \$100,000,000 issue of short term United States Housing Authority notes on November 1. The reporting banks' holdings of securities, other than United States Government obligations, however, were reduced \$79,000,000 in New York, owing to maturities of outstanding State and municipal obligations, and this decline was only partly offset by increases in holdings

of such securities by other reporting banks. Nevertheless, for the four week period the total investment holdings of the reporting banks showed a net increase of \$235,000,000.

At the same time, the "commercial" loans of the reporting banks continued to rise, reaching a slightly higher total than was attained in 1937. In the aggregate, loan expansion of reporting banks amounted to \$220,000,000 during the four weeks ended November 20, of which \$162,000,000 represented commercial loans. Total loans and investments of the reporting banks, as a result of the loan expansion and the increases in security holdings, consequently rose \$455,000,000, reaching a new high level, about \$500,000,000 above the 1929 peak. Accompanying the rise in loans and investments, adjusted demand deposits of reporting banks rose \$318,000,000 further to a new high.

In connection with the further increases in bank loans and investments, and in deposits, which occurred during the past month, it is of interest to review the changes which have taken place since this time a year ago. As the following table indicates, commercial loan expansion for the year ended November 20 has amounted to \$520,000,000. Total loan expansion, however, has been somewhat less, as a reduction in the total of loans to brokers and dealers in securities and other loans for purchasing or carrying securities, has exceeded an increase



Movements of Yields on High Grade Bonds (Scale inverted to indicate price tendencies; Standard Statistics Company average yield on high grade municipal bonds and Moody's Investors Service average yield on Aaa corporation bonds)

in real estate and miscellaneous loans. Owing to the fact that the decline in security loans has been largely at New York banks and to the fact that the rise in miscellaneous loans has been entirely at banks outside New York, total loans of the New York City banks show a net decline of \$44,000,000 for the past year, despite a sizable rise in their commercial loans, while total loans of banks in other cities show a net increase of \$537,000,000. Investment holdings of the New York City banks have shown considerably larger increases than have occurred outside New York, however, with the result that total loans and investments of New York City banks show approximately the same increase over a year ago as the aggregate for reporting banks in 100 other cities. Of the increase of \$1,852,000,000 in total loans and investments of all reporting banks during the past year, investments have accounted for \$1,359,000,000 and loans for \$493,000,000. Expansion of adjusted demand deposits, both in New York and in other principal cities, has considerably exceeded the increases attributable to the rise in loans and investments of the banks, owing principally to the heavy inflow of foreign funds during the past year to pay for war materials and for other purposes.

Changes in Loans and Investments and Deposits of Weekly Reporting Banks
November 20, 1940, Compared with November 22, 1939
(In millions of dollars)

	New York City	100 other cities	101 cities
Commercial, industrial, and agricultural loans...	+155	+365	+520
Loans to brokers and dealers in securities, and loans for purchasing or carrying securities.....	-180	- 28	-208
All other loans.....	- 19	+200	+181
Total loans.....	- 44	+537	+493
U. S. Government direct obligations.....	+533	+ 270	+803
Obligations guaranteed by U. S. Government.....	+315	- 16	+299
Other securities.....	+119	+138	+257
Total investments.....	+967	+392	+1,359
Total loans and investments.....	+923	+929	+1,852
Demand deposits—adjusted.....	+1,600	+1,443	+3,043
Time deposits.....	+ 51	+ 89	+140
U. S. Government deposits.....	- 13	- 4	- 17
Domestic bank deposits.....	+431	+586	+1,017
Foreign bank deposits.....	- 44	- 11	- 55

EXCESS RESERVES

The excess reserves of all member banks were reduced \$200,000,000 in the week ended November 6, owing chiefly to a further rise in the amount of money in circulation, partly of a seasonal nature, and to heavy receipts of funds in the Reserve Banks for Treasury account, largely the proceeds of a \$100,000,000 United States Housing Authority security issue and social security taxes. Subsequently the total of excess reserves rose to \$6,930,000,000 on November 27 (which compares with the peak of \$6,940,000,000 reached on October 23), as the Treasury disbursed funds from balances in the Reserve Banks and the gold stock continued to rise. At these high figures, fluctuations in excess reserves of as much as several hundred million dollars are of little significance. Of much greater significance is the fact that since the beginning

of the war more than \$2,000,000,000 has been added to the volume of excess reserves, which for some time have been more than ample to provide the basis for any conceivable, desirable expansion of bank credit, including financing by the commercial banks of industrial requirements for funds arising from the National defense program.

Money Rates in New York

	Nov. 30, 1939	Oct. 31, 1940	Nov. 28, 1940
Stock Exchange call loans.....	1	1	1
Stock Exchange 90 day loans.....	*1 1/4	*1 1/4	*1 1/4
Prime commercial paper 4-6 months.....	1/2 - 5/8	1/2 - 5/8	1/2 - 5/8
Bills—90 day indorsed.....	1/2	1/2	1/2
Average yield on Treasury notes (3-5 years).....	0.60	0.40	0.34
Average yield on Treasury bonds (not callable within 12 years).....	2.38	2.19	2.05
Average rate on latest Treasury bill sale 91 day issue.....	0.015	†	0.004
Federal Reserve Bank of New York discount rate.....	1	1	1
Federal Reserve Bank of New York buying rate for 90 day indorsed bills	1/2	1/2	1/2

* Nominal † Negative yield

GOVERNMENT SECURITIES

After exhibiting a slow rising tendency since June, Government security prices moved up strongly in November to reach new high levels. Prices firmed the day after Election Day and on November 7 advanced substantially, in response to the release of investment demand and the announcement by the Secretary of the Treasury concerning the proposed termination, with respect to future issues of Government securities, of the present tax exempt status. Accompanying the strong demand in the market for Government securities during the past month which resulted in sharp price advances, relatively heavy sales of Government securities were made from the Reserve System's portfolio.

The average price of long term Treasury issues advanced more than two points from the beginning of the month to November 9 when it stood at a record level—nearly 3/4 of a point above the previous high established in June, 1939. In the ensuing trading sessions to November 16 about 3/8 of a point was lost, but later in the month the average again established a new all-time high, between 1/8 and 1/4 point above the November 9 high. Treasury obligations of intermediate maturity followed a similar pattern.

Treasury note prices continued to advance through November 8, but showed little movement thereafter. The average yield on 3 to 5 year Treasury notes declined from 0.40 per cent on November 1 to 0.32 per cent (a new low) on November 8.

Treasury bill financing during November was composed of four weekly issues, each in the amount of approximately \$100,000,000 and each a replacement of similar maturities. The accepted bids for the issue dated November 6 were awarded at an average price fractionally below par. The three following issues were designated as National Defense Series. Under authority of the (first) Revenue Act of 1940 such National Defense

Treasury bills may be issued to provide the Treasury with funds to meet any expenditures made, after June 30, 1940, for the National defense, or to reimburse the general fund of the Treasury therefor. The National Defense Series is outside the existing statutory debt limit of \$45,000,000,000 and are the first securities issued under the authorization contained in the (first) Revenue Act of 1940 to borrow \$4,000,000,000 for National defense. As the regular issues of Treasury bills are retired and replaced by these new issues of National Defense bills, the margin of borrowing under the \$45,000,000,000 debt limit is increased by equal amounts. The National Defense issues dated November 13 and 20 were awarded at 0.003 per cent and the issue dated November 27 was sold on a 0.004 per cent basis.

The Secretary of the Treasury announced on November 13 that all outstanding 3 $\frac{3}{8}$ per cent Treasury bonds of 1941-43 are called for redemption on March 15, 1941. Approximately \$545,000,000 of these bonds were outstanding at the time of this announcement. The Secretary also stated that, prior to the redemption date, holders of these bonds may be offered the privilege of exchanging them for other interest bearing obligations of the United States.

COMMERCIAL PAPER AND BILLS

Bank investment demand for commercial paper during November remained active and went unfilled to a considerable extent as dealers continued to be able to secure only moderate quantities of new paper for resale in the open market. The rate range for average grade prime 4 to 6 month commercial paper again was indicated to be $\frac{1}{2}$ - $\frac{5}{8}$ per cent and the quotation for the choicest grade of paper, when available, continued at $\frac{3}{8}$ per cent. A total of \$252,400,000 of paper was outstanding through commercial paper concerns at the end of October, the largest amount since the spring of 1938. A month ago outstandings aggregated \$250,700,000 and a year ago \$205,300,000.

Trading in the bill market during November continued to hold to the small volume of recent months. Rates, largely nominal, remained unchanged. Bankers bills outstanding at the end of October totaled approximately \$187,000,000, about \$10,000,000 more than at the end of September and the first monthly increase since February. The rise was primarily accounted for by a seasonal expansion in import bills. As compared with a year ago, October outstandings were down \$34,000,000, reflecting in major part a reduction in export bills.

Security Markets

Stock prices fluctuated widely on several occasions during the past month, especially after Election Day and when announcement was made that the Secretary of the Treasury would ask Congress for a substantial increase in the statutory debt limit. Domestic bond prices were less volatile and, in general, continued the previous uptrend. Stock and bond sales for the month on the New York Stock Exchange were the heaviest since last May.

The average price of common stocks included in the

Standard Statistics 90 stock index dropped more than 3 per cent the day after the elections, but in a sharp reversal on the following day, when the statement regarding the debt limit was made, share prices rose over 5 per cent. This gain, however, was eliminated by November 20, accompanying the receipt of foreign news considered by the market of a disturbing nature, and renewed discussion of the effect of taxation in this country on business profits. There then followed a short period of irregularity, but declines on November 27 and 28 brought prices to the lowest level since mid-October. Among the component groups, the utility shares showed the greatest decline for the month and by November 29 were at the lowest level since June.

The average price of medium grade domestic corporate bonds, as measured by Moody's Investors Service price average for Baa issues, gained $1\frac{1}{4}$ points between November 6 and 18 to equal the high of January, 1937. After a slight intervening decline, a level about $\frac{1}{8}$ point higher was reached on November 26, but in the last days of the month medium grade bonds weakened somewhat. High grade corporate bonds, classified as Aaa by Moody, were slightly firmer through November 19 and held this record high level during most of the remainder of the month. On November 28 these bonds advanced $\frac{1}{4}$ of a point further. Prime municipal bond prices continued their advance, for the third month, and reached a new high level on November 20, according to the Standard Statistics Company data; prices of outstanding State and municipal issues were strengthened, at least temporarily, by the statement of the Secretary of the Treasury that he favors legislation to remove from future issues of such securities, as well as Federal Government securities, exemption from taxation.

New Financing

The private placement, late in the month, of \$140,000,000 American Telephone and Telegraph Company debentures with a group of insurance companies raised the volume of corporate and municipal flotations during November to \$265,000,000. This total was less than half that of the previous month, and the volume of new issues sold through public offering was close to the lowest level reached during the past year. No reason was apparent for the sharp decline in public offerings, though it may have been due in part to the acceleration of security flotations in October in an effort by some issuers to consummate their financing prior to Election Day. Total corporate issues amounted to \$200,000,000, of which \$170,000,000 represented funds for new capital purposes.

The American Telephone and Telegraph Company private sale, the purpose of which was to raise funds for expansion and construction in the Bell Telephone System, was reported to be the largest single deal of its type ever negotiated. The company's announcement disclosed that these "new money" debentures, which carry a 2 $\frac{3}{4}$ per cent coupon and mature in thirty years, were sold at 98 $\frac{1}{2}$ or at a net interest cost to the company of 2.8 per cent. The next largest corporate flotation was

that of \$10,000,000 Atchison, Topeka and Santa Fe Railway 1¼ per cent equipment trust certificates maturing in one to ten years. This issue was awarded at a net interest cost of 1.15 per cent, reported to be the lowest rate at which an equipment trust certificate issue has ever been sold, and was reoffered to yield from 0.20 per cent to 1.50 per cent according to maturity.

Municipal awards made during the past month included \$12,096,000 Metropolitan Water District of Southern California 3 per cent Colorado River waterworks refunding bonds, maturing serially from 1953 to 1988, and \$8,245,000 City of Mobile, Alabama, 3½ per cent general refunding bonds, maturing serially from 1944 to 1970. The former issue was reoffered to yield from 2.00 per cent to 2.75 per cent, while the latter was reoffered to yield from 1.50 per cent to approximately 3.38 per cent.

Short term obligations, not included in the \$265,000,000 total, amounted to \$270,000,000, a large portion of which was accounted for by security flotations of two Government instrumentalities. The Federal Intermediate Credit Banks sold \$30,000,000 of 0.75 per cent nine and twelve month refunding debentures on a basis of 0.25 per cent and 0.30 per cent, respectively, and the Federal Home Loan Banks sold \$67,000,000 of securities, consisting of \$15,000,000 of 0.50 per cent five month debentures sold at 0.20 per cent and \$52,000,000 of 0.75 per cent seventeen month debentures sold at 0.45 per cent. In addition, various local housing authorities awarded about \$144,000,000 of short term notes during the month.

Business Profits

Aggregate third quarter net profits of the 429 industrial and mercantile companies covered in the accompanying table were 19 per cent larger than those for the corresponding 1939 period. While this comparison gives an indication of the higher level of profits this year than last, it is subject to an unusual influence because of the variable character of the provisions made for taxes by the different companies in their recent quarterly reports. Widely varying tax allowances were made by reporting companies depending on the individual corporation's decision as to when to make tax deductions in accordance with the increased levies imposed by the two Revenue Acts of 1940. The (first) Revenue Act of 1940, approved June 25, increased the normal tax rate, in general, from 18 to 20.9 per cent, and the Second Revenue Act of 1940, approved October 8, increased the normal tax rate from 20.9 to 24 per cent and, in addition, imposed an excess profits tax. These taxes apply to corporate income for taxable years beginning after December 31, 1939.

In view of these adjustments, a comparison between corporate profits for the first three quarters of this year and last has more cogency than the usual quarterly comparison. For the full nine month period, combined net profits (less deficits) of the 429 industrial and mercantile companies showed a gain over 1939 of 40 per cent but remained 17 per cent less than in 1937. Earnings of the durable goods producers were 60 per cent above those in the first nine months of 1939; profits of companies manufacturing nondurable goods, and service companies,

were up only 16 per cent. Particular beneficiaries of more active business in the durable goods group were producers of steel, railroad equipment, heating and plumbing supplies, airplanes, machinery and tools, automobile parts and accessories, electrical equipment and copper. The largest year-to-year percentage gains in the nondurable group for the nine month period were shown in the paper and paper products, textile, and petroleum classifications. Compared with the first nine months of 1937, the airplane, textile, paper and paper products, confectionery, and other food products groups had higher net profits. The coal mining group had an aggregate profit this year, compared with a deficit in 1937.

For the first nine months the net income of Class I railroads amounted to \$59,000,000 as compared with a deficit of \$32,000,000 in 1939, a deficit of \$176,000,000 in 1938, and a net income of \$81,000,000 in 1937. Class I railroads reported third quarter net income, after all charges, amounting to \$71,000,000 which compares with \$58,000,000 a year ago and is the largest for any third quarter since 1930. Net operating income of large telephone companies and net income of other public utilities for the January-September period were moderately higher than a year before, but for the third quarter alone were slightly below the corresponding 1939 level.

(Net profits in millions of dollars)

Corporation group	No. of Cos.	Third quarter		First nine months			
		1939	1940	1937	1938	1939	1940
Advertising, printing and publishing.....	8	1.4	1.9	10.6	5.9	7.8	9.2
Automobiles.....	12	12.6	15.6	199.9	31.6	137.5	162.0
Automobile parts and accessories.....	39	6.8	8.4	56.0	-5.7	28.2	44.6
Aviation.....	11	7.9	12.0	6.5	10.7	19.6	36.9
Building supplies:							
Hardware.....	4	0.6	0.9	3.8	-0.4	1.0	2.4
Heating and plumbing.....	8	3.8	5.5	14.2	0.6	4.9	10.1
Roofing supplies.....	4	2.3	2.5	6.0	1.7	3.9	4.9
Stone, clay, and glass.....	8	6.3	6.3	21.8	7.5	14.9	18.4
Other.....	6	2.3	1.9	8.2	2.9	5.3	5.5
Chemicals.....	28	35.9	33.9	121.5	60.1	94.2	114.4
Drugs and cosmetics (incl. soaps).....	12	15.0	12.2	42.3	35.1	43.6	41.9
Electrical equipment.....	18	15.1	20.6	76.7	28.8	43.2	67.4
Food products:							
Bakery.....	9	5.7	4.8	15.5	17.4	16.1	13.6
Beverages.....	6	12.0	9.3	29.8	29.9	30.4	29.2
Confectionery.....	8	5.8	4.8	14.3	13.2	16.1	15.0
Other.....	15	16.0	13.1	41.2	40.8	44.8	45.0
Machinery and tools.....	33	7.9	9.8	47.8	11.6	17.5	30.7
Metal manufactures—misc.....	14	4.8	4.6	16.3	3.2	9.4	12.2
Mining:							
Coal.....	11	0	1.9	-0.1	-6.7	-1.9	4.4
Copper.....	5	8.3	9.6	40.0	14.0	22.2	34.4
Gold and silver.....	10	4.6	4.1	17.5	13.4	12.8	12.2
Other.....	14	13.1	13.5	59.3	26.5	34.2	39.7
Motion pictures.....	5	1.9	0.9	13.9	8.2	7.5	5.3
Office equipment.....	7	3.0	3.0	17.8	10.8	10.4	12.2
Paper and paper products.....	14	2.2	3.9	11.9	4.2	5.2	12.6
Petroleum.....	27	22.9	22.6	142.6	87.8	52.5	78.8
Railroad equipment.....	13	4.8	7.6	33.8	-0.4	8.9	23.2
Steel.....	27	29.8	73.8	207.2	-25.4	51.7	166.5
Stores.....	13	9.8	6.6	22.6	12.7	22.9	20.4
Textiles.....	12	3.3	4.5	11.9	1.8	8.3	13.9
Tobacco (cigars).....	5	1.1	1.2	2.5	2.3	2.6	3.3
Miscellaneous.....	23	6.2	4.8	10.4	3.6	8.8	8.7
Total, 32 groups.....	429	273.2	326.1	1,323.7	447.7	784.5	1,099.0
Class I railroads, net income.....	137	58.3	70.6	81.4	-175.6	-31.8	58.6
Telephone companies, net operating income.....	94	60.1	55.9	171.5	153.4	177.4	180.4
Other public utilities, net income.....	65	56.6	54.2	183.2	160.5	182.9	190.9
—Deficit							

Central Bank Rate Change

According to a recently published report, the National Bank of Bohemia and Moravia (formerly the National Bank of Czecho-Slovakia) raised its discount rate from 3 to 3½ per cent on October 1. The lower rate had been in effect since January 1, 1936.

Foreign Exchanges

Those exchange rates which continue to be quoted regularly in the New York market showed greater stability during the past month than at any time since before the outbreak of the present European war. The rate for the Swiss franc, for example, after having been permitted to appreciate about 80 points following the capitulation of France, remained virtually unchanged during November near the level of \$0.2321. The unofficial rate for the pound sterling, at which some dealings still take place, generally held within the extremely narrow range of \$4.03½-\$4.04. The British authorities tightened exchange restrictions somewhat further by taking steps to prevent the transfer into foreign exchange of certain capital payments to nonresidents. The new regulations, which took effect as of November 23, provided for new "blocked" sterling accounts, into which such capital proceeds are to be paid.

Coincident with the arrival in this country of an Argentine financial delegation, the free rate for the Argentine peso advanced during the first part of November from \$0.2330 to as high as \$0.2370, but subsequently declined somewhat, to end the month at \$0.2345. Some minor improvement was also shown by the Cuban peso, the discount on which was quoted at the end of November at 8½ per cent, as against 9⅛ per cent a month earlier.

On November 21 the National Bank of Hungary revised its foreign exchange quotations, lowering the premiums on the purchase and sale of convertible exchange (including the dollar) from 50 and 53 per cent, respectively, to 47 and 50 per cent. In terms of the dollar, therefore, the pengoe appreciated from \$0.1883-\$0.1937 to \$0.1921-\$0.1977. The current dollar rates are close to those which were quoted before the substantial depreciation of the pengoe that accompanied the outbreak of war.

Gold Movements

There was a further moderate decline during November in the volume of imports of gold into the United States. The total amount of gold held under earmark for foreign account at the Federal Reserve Banks was increased about \$40,000,000, following an increase of \$115,000,000 in October and reached a new high figure of approximately \$1,815,000,000 on November 30. The increase in the gold stock of the United States during the month—about \$295,000,000—was somewhat larger than in October, but smaller than in any month of the April-September period of this year.

In the four weeks ended November 20, the Department of Commerce reported the receipt of \$288,985,000 of gold in the following principal amounts: \$205,642,000 from Canada, \$16,490,000 from Argentina, \$14,432,000 from Australia, \$14,338,000 from Portugal, \$12,186,000 from Japan, \$8,436,000 from Russia, \$6,296,000 from

South Africa, \$3,600,000 from the Philippines, \$1,482,000 from the United Kingdom, \$1,107,000 from Hong Kong, \$925,000 from Chile, and \$605,000 from Mexico.

Foreign Trade

During October—in some part owing to seasonal influences—there was a recovery from the sharp reduction in United States foreign trade which had taken place in September. Total merchandise exports amounted to \$343,000,000 in October, and general imports to \$207,000,000, showing increases over September of 16 per cent and 6 per cent, respectively. Compared with October, 1939, the value of exports was 3½ per cent larger, while the value of goods actually imported into the country was 4 per cent smaller. (Imports "for consumption," which in October of this year included considerable withdrawals from bonded warehouses, were valued at \$213,000,000, or nearly 3 per cent more than the corresponding figure of a year previous.) The increase in exports carried this figure to the highest October level since 1929. The excess of total exports over general imports of \$136,000,000 for October was substantially larger than in the previous month or in October, 1939.

Exports of cotton expanded seasonally during October, but, as in the preceding month, fell considerably short of the totals usually reached at this time of the year. An increase of \$8,500,000 over September (to \$31,400,000) in exports of aircraft was the largest single factor in the gain in total exports. The number of planes exported was 335 in October compared with 284 in September, and exports of engines increased to 648 from 441 in the previous month. Large gains over September were also recorded in shipments abroad of industrial machinery, automobiles (both passenger cars and trucks), copper, brass and bronze, and crude petroleum and products. Exports of coal, however, and of certain iron and steel products were somewhat smaller than in September. Compared with October of last year, exceptionally large gains were shown in exports of aircraft, iron and steel products, metal-working machinery, semimanufactures of brass and bronze, and firearms and explosives. On the other hand, exports of petroleum and its products, coal and coke, and of the majority of the agricultural commodities were far below the levels of a year ago.

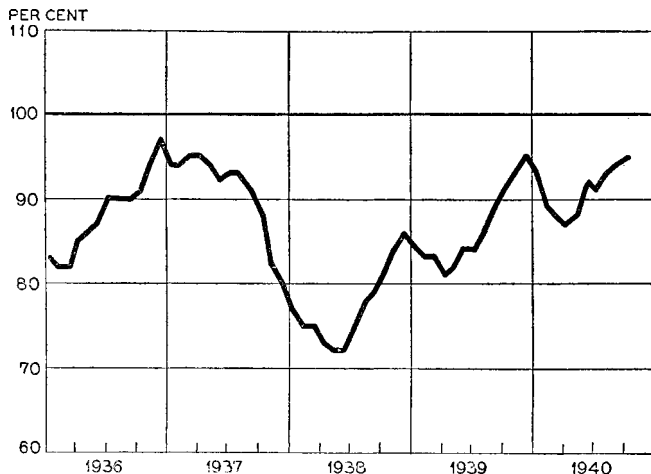
Imports during October of silk, wool, coffee, diamonds, and a number of other products showed substantial increases over the previous month. Receipts of tin, crude rubber, furs, and burlap were smaller than in September. Compared with October of last year, a large dollar gain was shown in imports of rubber; imports of copper and burlap registered threefold increases, and those of tin and wool were about twice as large as a year ago. On the other hand, receipts of woodpulp, coffee, newsprint paper, and sugar showed comparatively large declines from October, 1939.

For the first ten months of 1940, total exports aggregated \$3,374,000,000 and general imports \$2,149,000,000, resulting in a net export balance of \$1,225,000,000. In the case of exports the value was the largest for the comparable period of any year since 1929. The export balance for the ten months exceeded that of the corresponding months of any year since 1921.

Production and Trade

The general level of business activity appears to have mounted further in November—a continuing reflection of the stimulating effect of the steadily increasing demands of the National defense program upon industry. Steel mill operations appear to have averaged around 96½ per cent of capacity during November, or slightly above the average for October and the highest operating rate since 1929. The actual production of steel is somewhat larger now than in 1929, however, owing to the increased capacity of the industry. New business booked by steel mills in November was indicated to have been considerably in excess of shipments, and as the month advanced it was necessary for the mills to set their delivery dates progressively further ahead. Automobile production, after rising sharply in September and October, held at a high level throughout November; on the average nearly 25,000 passenger cars and trucks came off the assembly lines each working day. Although mill sales of cotton gray goods decreased in November, the mills still had large backlogs of orders at the end of the month and a high rate of operations was maintained. During the three weeks ended November 23, railroad freight traffic declined somewhat less than usual for this time of year, and electric power production continued to increase.

This bank's index of production and trade advanced 1 point further between September and October to 95 per cent of estimated long term trend. The index for October shows a net increase of 8 points over the April low and equaled the peak level of last December. The rise in the index between September and October was due to further increases in industrial production, with the durable goods industries again showing the more pronounced gains. The steel mills and machine tool plants of the country were increasingly busy, and in many cases were operated at or near capacity. Other manufacturing activities strongly affected by the requirements of the National defense program—such as the shipbuilding, airplane, and textile industries—expanded still further, and the usual autumn contraction in cement production failed to take place. In conformity with the



Index of Production and Trade in the United States (Federal Reserve Bank of New York index, expressed as a percentage of estimated long term trend, and adjusted for seasonal variation)

seasonal pattern of recent years, automobile assemblies proceeded at a greatly accelerated rate in October.

As evidenced by railroad freight loadings, the flow of goods in primary distribution channels in general was about unchanged from September to October, seasonal factors considered; merchandise and miscellaneous freight loadings increased more than usual, but the movement of bulk commodities declined owing to a reduction in coal shipments. In respect to retail trade, with the exception of automobiles and groceries, somewhat unfavorable showings were made in comparisons with September. Department store sales were below the relatively high levels of August and September, although there has usually been an increase in October, and gains in mail order house and variety chain store sales were less pronounced than usual.

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

	1939		1940	
	Oct.	Aug.	Sept.	Oct.
<i>Index of Production and Trade</i>	91	93	94 _p	95 _p
<i>Production of:</i>				
Producers' durable goods.....	87	94	96 _p	101 _p
Producers' nondurable goods.....	99	99	100 _p	100 _p
Consumers' durable goods.....	67	73	79 _p	85 _p
Consumers' nondurable goods.....	96	94	96 _p	97 _p
Primary distribution.....	87	90	87 _p	87 _p
Distribution to consumer.....	94	96	96 _p	95 _p
<i>Industrial Production</i>				
Steel.....	116 _r	115	114	121
Automobiles.....	80	56	117	116
Bituminous coal.....	98	97	96	79 _p
Crude petroleum.....	90	86	85	84 _p
Electric power.....	98	100	101 _p	103 _p
Cotton consumption.....	111	115	112	116
Wool consumption.....	120	115	133	134
Shoes.....	106	100	97 _p	103 _p
Meat packing.....	97	97	101	108 _p
Tobacco products.....	95	89	90	95
<i>Manufacturing Employment</i>				
Employment.....	94	96	98 _p	100 _p
Man-hours of employment.....	91	92	95 _p	98 _p
<i>Construction</i>				
Residential building contracts.....	44	60	58	53
Nonresidential building and engineering contracts.....	48	75	60	77
<i>Primary Distribution</i>				
Ry. freight car loadings, mdse. and misc. r.....	87	85	87	89
Ry. freight car loadings, other.....	95	94	95	87
Exports.....	87	113	85	88 _p
Imports.....	81	80	76	75 _p
<i>Distribution to Consumer</i>				
Department store sales (U. S.).....	88	98 _r	98 _r	90
Grocery chain store sales.....	98	99	95	97 _p
Variety chain store sales.....	95	106	99	95
Mail order house sales.....	99	103	98	95
New passenger car sales.....	80 _r	64 _r	81 _r	102 _p
<i>Velocity of Deposits*</i>				
Velocity of demand deposits, outside New York City (1919-25 average=100).....	57	53	55	54
Velocity of demand deposits, New York City (1919-25 average=100).....	29	23	25	26
<i>Cost of Living and Wages*</i>				
Cost of living (1935-39 average=100).....	104	104	104	104
Wage rates (1926 average=100).....	112	114	114 _p	114 _p

p Preliminary

r Revised

* Not adjusted for trend

Building

Owing mainly to a considerable increase in building for National defense purposes, the total value of construction contract awards for October in the 37 States

covered by the F. W. Dodge Corporation survey was 10 per cent larger than in September, and 46 per cent higher than a year before. Contracts for publicly financed construction (enlarged by National defense work) showed an increase of 21 per cent over September, while privately financed building increased only 2½ per cent. The most important development was a gain in nonresidential building, over a third of the contracts for which were associated with National defense needs. Daily average awards in this category reached the highest level since July, were 35 per cent larger than in September, and showed an 88 per cent advance over October, 1939. All nonresidential subclassifications shared in these gains. Industrial and public purpose building were particularly stimulated by National defense awards. Heavy engineering construction was 4 per cent larger than in September and 39 per cent larger than in the corresponding period last year. The month-to-month increase in this category was accounted for by a 22 per cent gain in public works; the typically volatile utility awards were off 27 per cent, even though contracts for defense purposes showed a substantial increase. Residential building contracts were slightly smaller than in September (despite a rise in awards classified as being for defense) but were 26 per cent above those a year earlier.

Percentage Changes in Average Daily Construction Contract Awards

	37 States October, 1940 compared with		N. Y. and Northern N. J. October, 1940 compared with	
	Sept. 1940	Oct. 1939	Sept. 1940	Oct. 1939
<i>Building</i>				
Residential	- 3	+26	- 8	-14
Commercial and miscellaneous	+22	+76	- 9	+33
Industrial	+24	+181	+48	+281
Public purpose*	+66	+46	+97	+52
All building	+12	+49	+13	+18
<i>Engineering</i>				
Public works	+22	+45	+43	+29
Utilities	-27	+22	-55	-15
All engineering	+ 4	+39	- 7	+15
All construction	+10	+46	+ 8	+18

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

In New York and Northern New Jersey the daily average of construction contract awards in October advanced 8 per cent over September and 18 per cent from October, 1939. Benefiting from large gains in the industrial and public purpose types, nonresidential building in October showed a larger increase over September than was the case in the 37 States, but residential building in this district was reduced by a somewhat larger percentage (8 per cent). Because of a sharp drop in utility awards, heavy engineering construction in this area declined 7 per cent below September, contrasted with the gain for the 37 States. Compared with October, 1939, nonresidential building increased 90 per cent and heavy engineering 15 per cent, while residential building was 14 per cent lower.

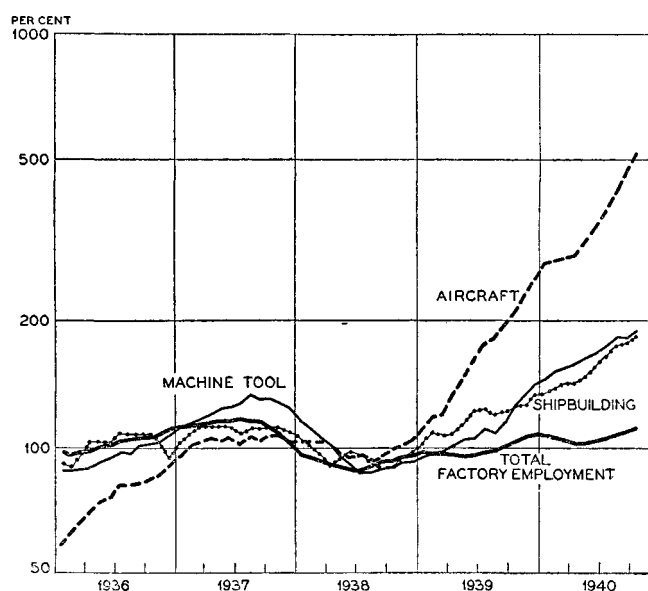
For the first two weeks of November, the daily rate of construction contract awards in the 37 States was 3 per

cent higher than in October. Residential building contracts increased 12 per cent and nonresidential work rose 9 per cent, but heavy engineering awards were 19 per cent below the October average. Compared with the first half of November, 1939, total contract awards showed a gain of 6 per cent.

Employment and Payrolls

During October, employment in New York State factories rose nearly 3 per cent, a greater than usual gain, and payrolls increased 2 per cent. This bank's seasonally adjusted indexes of New York State factory employment and payrolls advanced for the sixth consecutive month, the employment index attaining the highest level since 1923. Textile manufacturers continued to add to their working forces during October, and automobile and airplane factories, shipyards, and railroad repair shops also reported large employment gains. Clothing manufacturers reduced working forces seasonally and their payrolls showed even greater losses, owing to the observance of Columbus Day and religious holidays. Factory employment as a whole was 10 per cent above the October, 1939 level, and payrolls were 15 per cent greater.

Factory employment in the United States as a whole rose 2 per cent further in October and approached the highest level of 1937; payrolls, up 4 per cent, neared the September, 1929, peak. Substantial employment gains have occurred in durable goods industries, many of which have been greatly stimulated by the National defense program. As the accompanying diagram indicates, working forces in airplane factories have reached a total nearly 2½ times the figure of a year ago, and employment in machine tool plants and shipyards has risen some 50 per cent. Total factory employment has gained 6 per cent over October, 1939.



Total Factory Employment in the United States Compared with Employment in the Manufacture of Aircraft and Machine Tools, and in Shipbuilding, Adjusted for Seasonal Variation (Bureau of Labor Statistics basic data, corrected to a 1935-39 base; plotted on ratio scale to indicate rates of growth)

Commodity Prices

Prices in the principal wholesale commodity markets continued to move toward generally higher levels during the first half of November; during the second half a leveling out tendency was apparent. On November 19, the Bureau of Labor Statistics daily index of 28 basic commodities reached 118.0 per cent of the prewar (August, 1939) base—the highest point since the middle of May—but declined slightly from this level during the remainder of the month, and at the close was about 3¼ per cent higher than at the end of October.

Despite increased Government estimates of this year's crops of cotton and corn, based on conditions as of November 1, price advances occurred in these commodities as well as in wheat, owing in part no doubt to the limited quantities available in the "free" markets. The tight supply situations reflected the effect of further additions to the Government loan stocks and, in the case of cotton and corn, of well sustained domestic demand.

Hog prices, while fluctuating irregularly, showed a slight net gain for the month as a whole, despite exceptionally heavy marketings. Sugar, on the other hand, after advancing to a comparatively high point early in November, declined throughout the remainder of the month to a level below that prevailing at the end of October. Hide quotations were down 1 cent during November to 14 cents a pound, canceling a part of the gains of the previous month.

Cotton prices in November were at the highest levels since the middle of August. Wool continued to show strength, but the price of silk in New York extended the decline in progress since the peak in the middle of October, and at \$2.48½ a pound on November 28 was 6 cents lower than at the end of October.

The metal markets on the whole displayed further strength. Scrap steel at Pittsburgh advanced 50 cents to \$22.00 a ton, the highest level in thirteen months. Reflecting an exceptionally limited supply, the price of lead was increased an additional 30 points on November 8 to 5.80 cents a pound—a new high since October, 1937; the price was reduced on November 28, however, to 5.65 cents a pound. Tin drifted slightly lower throughout November.

Weekly indexes of wholesale prices of 40 basic commodities in the United States and nine foreign countries, the publication of which was recently resumed by General Motors Corporation and Cornell University, show that prices of these basic commodities in the United States stood at 116 per cent of the prewar (August, 1939) base on November 16. Comparisons with the commodity price indexes for other countries, expressed in their own currencies, are indicated in the following table.

(August, 1939=100)

	November 16, 1940
Switzerland.....	162*
England.....	143
Sweden.....	141
Canada.....	124
Australia.....	123
New Zealand.....	117
Java.....	117
UNITED STATES.....	116
Argentina.....	114
Mexico.....	110

* November 9 latest available date.

Department Store Trade

For the three weeks ended November 23, total sales of the reporting department stores in this District were about 4½ per cent higher than in the corresponding 1939 period, and the daily rate of sales for these three weeks showed more than the usual seasonal advance from October.

In October, total sales of the reporting department stores in this District were about 9 per cent higher than in October, 1939, and after allowing for one more shopping day this year than last, the increase in average daily sales amounted to about 5 per cent. However, in comparison with the relatively high rate of sales reported for September, October average daily sales were practically unchanged, whereas seasonally there is ordinarily an increase between these two months. Department stores in practically all localities showed rather sizable gains in sales over October, 1939, but on an average daily basis the year-to-year comparisons were generally less favorable than in the previous month. Total sales of the leading apparel stores in this District were approximately 4½ per cent higher than in October, 1939, but on an average daily basis were practically unchanged from last year.

Stocks of merchandise on hand in the department stores, at retail valuation, were about 5½ per cent higher at the end of October, 1940, than at the end of October, 1939, while apparel store stocks were practically unchanged from last year.

Locality	Percentage change October, 1940 compared with October, 1939		Per cent of accounts outstanding September 30 collected in October	
	Net sales	Stock on hand end of month	1939	1940
New York and Brooklyn.....	+ 9.0	+ 4.4	48.5	48.8
Buffalo.....	+ 4.4	+ 5.9	41.2	41.7
Rochester.....	+ 8.8	+ 8.4	58.7	52.3
Syracuse.....	+13.7	+ 2.7	40.9	41.9
Northern New Jersey.....	+10.2	+10.4	39.9	35.4
Bridgeport.....	+12.2	+ 6.3	44.2	45.0
Elsewhere.....	+ 8.3	+ 0.6	34.9	35.7
Northern New York State.....	+ 3.4	.....	.....	.....
Southern New York State.....	+ 6.7	.....	.....	.....
Central New York State.....	+14.5	.....	.....	.....
Hudson River Valley District.....	+ 8.7	.....	.....	.....
Westchester and Stamford.....	+ 8.6	.....	.....	.....
Niagara Falls.....	- 0.2	.....	.....	.....
All department stores.....	+ 9.1	+ 5.4	45.3	43.9
Apparel stores.....	+ 4.4	+ 0.2	46.0	45.4

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

	1939	1940		
		Oct.	Aug.	Sept.	Oct.
Sales (average daily), unadjusted.....	103r	76	108r	108
Sales (average daily), seasonally adjusted..	91r	101	104r	95
Stocks, unadjusted.....	88	76	85	93
Stocks, seasonally adjusted.....	78	80	81	82

r Revised

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

Business Conditions in the United States

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

INDUSTRIAL output rose sharply in October and the first half of November and prices of basic commodities advanced further. New orders both for defense purposes and for civilian needs continued in large volume.

PRODUCTION

Volume of industrial production, as measured by the Board's seasonally adjusted index, rose further in October to about 128 per cent of the 1935-1939 average as compared with 125 in September and 126 at the peak reached last December.

Increases in output were marked in the automobile and textile industries. In the rayon industry, where production in September had been curtailed by a strike, activity increased considerably and cotton textile mills were also more active. Mill sales of cotton goods have been large since the middle of August, reflecting increased civilian and military demand, and have been in excess of production during most of this period. At wool textile mills, where activity had risen sharply in September, there was a further increase in October. Backlogs of orders in this industry are now of considerable size owing to a large volume of orders received during the past two months, particularly from the Government. Automobile production rose to about 500,000 cars and trucks, the largest monthly total since the spring of 1937, and retail sales of both new and used automobiles were reported to be large for this time of year.

In the steel and machinery industries activity continued at a high rate in October. In the first half of November steel ingot production advanced slightly further and was at about 96 per cent of capacity. This high rate of output is expected to be maintained for some time to come, according to trade reports, as new orders for steel have continued large. Lumber production, which had risen sharply since midsummer, declined less than seasonally in October. New orders for lumber were somewhat below the high rate of August and September but remained above production, reflecting in part continued Government demands.

Bituminous coal production declined sharply in October but in the first half of November showed some increase. In this industry output had been maintained in large volume during the summer owing in part to considerable stocking of coal in anticipation of higher prices. Anthracite production also declined in the first half of October but rose sharply in the latter part of the month owing in part to seasonal influences. Crude petroleum production, which had been curtailed during most of the summer, increased further in October.

Value of construction contract awards increased in October, following a decline in the previous month, according to figures of the F. W. Dodge Corporation and the Federal Reserve Bank of San Francisco. Changes in the amount of contract awards in recent months have reflected principally fluctuations in contracts for public projects. Awards for private construction have shown about the usual seasonal changes, following a sharp rise in July and August.

DISTRIBUTION

In October department store sales declined considerably from the advanced level of the two preceding months, while sales at variety stores, which also had been large in August and September, increased seasonally. In the early part of November department store sales increased somewhat.

Total loadings of revenue freight in October were maintained at about the level reached in September. Shipments of miscellaneous merchandise increased further, while loadings of coal showed a sharp decrease. In the first week of November freight car loadings declined by less than the usual seasonal amount.

WHOLESALE COMMODITY PRICES

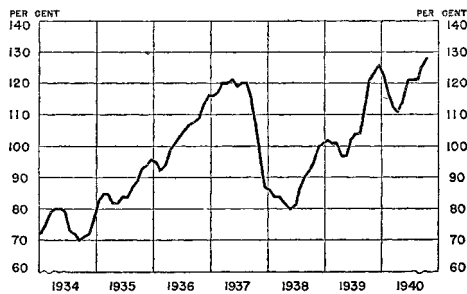
Prices of basic commodities continued to advance from the middle of October to the middle of November, with the chief increases in industrial materials, particularly lead, hides, wool, and textile yarns. The general index of wholesale commodity prices rose further by about 1 per cent in this period, reflecting increases in prices of some finished goods as well as of materials.

BANK CREDIT

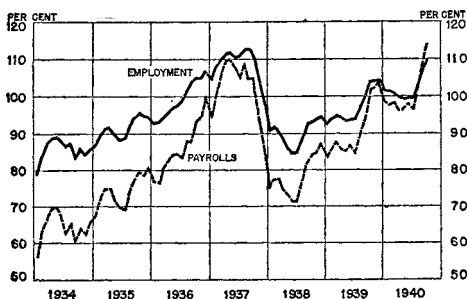
Total loans and investments at reporting member banks in 101 leading cities have increased substantially since the end of September. Commercial loans showed sizable increases both in New York City and in other leading cities. Following reductions during August and September, holdings of United States Government obligations at these banks also increased. Federal Reserve System holdings of Government obligations were reduced by \$180,000,000 between September 25 and November 13.

UNITED STATES GOVERNMENT SECURITY PRICES

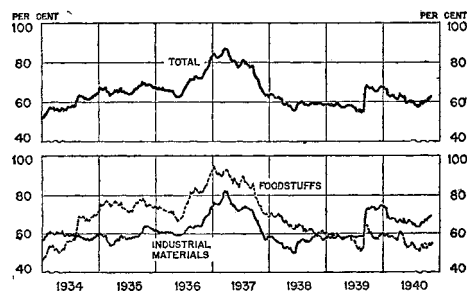
After rising moderately during the latter part of October prices of United States Government securities advanced sharply in the early part of November. The quotation on the 1960-65 bonds reached a new high level at about 110¼, and the yield on this issue declined to 2.12 per cent compared with 2.25 per cent in October and 2.26 per cent in June, 1939 and again in April, 1940. The average yield on 3 to 5 year Treasury notes declined to less than ¾ of 1 per cent.



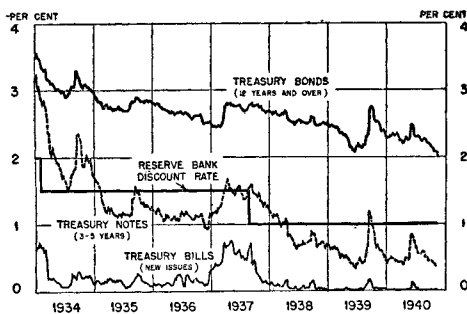
Index of Physical Volume of Industrial Production, Adjusted for Seasonal Variation (1935-1939 average=100 per cent)



Index Numbers of Factory Employment and Payrolls, Without Adjustment for Seasonal Variation (1923-1925 average=100 per cent)



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



Money Rates in New York City