

MONTHLY REVIEW

of Credit and Business Conditions

Second Federal Reserve District

Federal Reserve Bank, New York

January 1, 1941

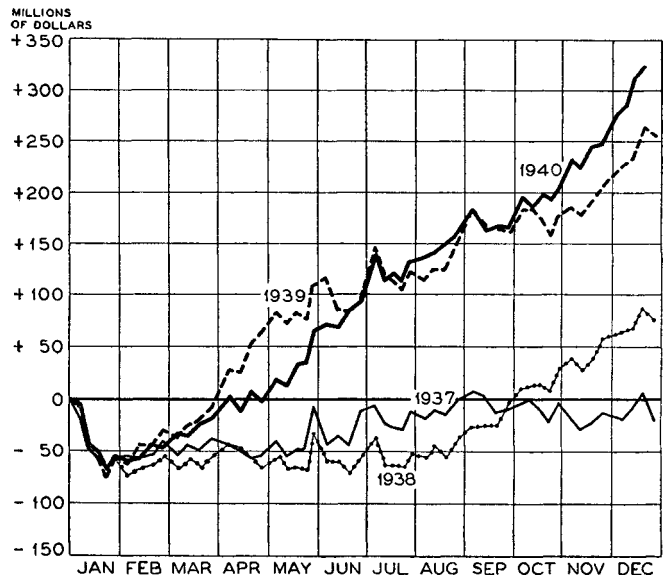
Money Market in December

In the money market, the month of December was characterized on the one hand by a sharp, though temporary, reduction in excess reserves of the member banks, and on the other by further expansion in member bank credit. Meanwhile, a further net decline occurred in yields on United States Government and municipal securities, attributable at least in part to the issuance of a fully taxable Treasury note issue and to further indications that efforts will be made in the near future to eliminate tax exemptions from future issues of long term United States Government securities, as both developments tended to increase investment interest in outstanding United States Government and municipal issues.

Excess reserves of all member banks were reduced by a net amount of \$490,000,000 from \$6,930,000,000 on November 27 to \$6,440,000,000 on December 24, owing to two principal factors—an increase of \$282,000,000 in Treasury deposits in the Reserve Banks and a further increase of \$352,000,000 in the amount of currency outstanding. Absorption of reserve funds from these causes considerably exceeded an increase in the gold stock amounting to \$175,000,000, which, although the principal factor of gain to member bank reserves during the four week period, represented the smallest rise in the gold stock in many months. The increase in Treasury balances at the Reserve Banks was due largely to payments to the Treasury for the \$531,000,000 Treasury note issue of the National Defense series, about three fourths of which was paid for in cash on December 18, and one fourth by credits to the War Loan Deposit accounts on the books of subscribing banks. The increase of \$352,000,000 in the amount of currency outstanding between November 27 and December 24 was considerably in excess of the usual seasonal rise at this time of year, continuing the tendency for currency circulation to rise to progressively higher levels. Ordinarily, a substantial amount of currency returns to the Reserve Banks after Christmas, and the resultant additions to member bank reserves, supplemented by Treasury disbursements and increases in the gold stock, should cause a renewed accumulation of excess reserves in the member banks in January.

The accompanying diagram indicates the changes which have occurred during each of the past four years

in the amount of currency outstanding through the Federal Reserve Bank of New York, cumulated from the last Wednesday of the preceding year. As the diagram shows, the increase during 1940 was even larger than in 1939, and on December 24 approximately \$325,000,000 more currency was outstanding through this bank than on the last weekly reporting date in 1939. This net outflow of currency followed an outflow of more than \$250,000,000 during 1939. A number of factors are believed to have been responsible for the continued rise in currency circulation, although the relative importance of these factors, such as bank service charges, low level of interest rates on savings accounts, foreign demands for United States currency manifested both in this country and abroad, and the level of business activity, is not known. It is of some significance, however, that in the latter part of 1937, when business activity was undergoing a sharp reduction, the amount of currency called into use showed only a slight seasonal rise in the closing months of the year. In 1940, with business activity rising sharply, a substantial increase in currency circulation was to be expected from this factor, quite aside from other influences.



Changes in Volume of Currency Outstanding through Federal Reserve Bank of New York (Weekly data for each year cumulated from last Wednesday of preceding year)

RISE IN MEMBER BANK CREDIT

Owing in part to loan expansion and in part to purchases of securities, total loans and investments of the weekly reporting banks in 101 cities increased \$700,000,000 further during the four weeks ended December 24, to reach a new high level, approximately \$1,200,000,000 above the 1929 peak. With respect to loans, those classified as commercial, industrial, and agricultural increased \$105,000,000 further at a time when there is usually some seasonal reduction; this expansion was fairly widespread throughout the country. Loans to brokers and dealers in securities, although still at very low levels, rose by a net amount of \$78,000,000, of which nearly two thirds occurred at New York City banks, the increase apparently being only partly accounted for by borrowings by dealers in Government securities in connection with December Treasury financing.

The investment holdings of the reporting banks showed an increase of \$476,000,000 which was about twice the rise in their loans. To a considerable extent the increase in investment holdings reflected acquisition of United States Treasury notes, holdings of which rose \$276,000,000 during the four weeks ended December 24; \$234,000,000 of this increase occurred in the week ended December 18, presumably indicating that a substantial part of the \$531,000,000 new issue of National Defense notes was taken by the reporting banks for their own account. The United States bond holdings of the reporting banks also showed an increase of \$61,000,000 during the four weeks ended December 24, which was entirely accounted for by increases in holdings of such obligations by New York City banks. Holdings of Government guaranteed securities and of miscellaneous securities by New York City banks likewise increased during this period, and holdings of miscellaneous securities by banks in 100 other cities also tended to rise.

Adjusted demand deposits of the reporting banks rose to new high levels in December. Domestic inter-bank deposits in New York City banks stood at \$3,800,000,000 on December 24, an increase of \$400,000,000 during the past year.

GOVERNMENT SECURITIES

Government bond price fluctuations were indecisive in the first five trading sessions of December but, subsequently, prices moved higher both in anticipation of, and after, the Treasury's announcement on December 10 that the Treasury's midmonth financing would be confined to a cash offering of \$500,000,000 of taxable notes. The notes, dated December 18, carrying a $\frac{3}{4}$ per cent coupon, and maturing in five years, comprised the first issue of National Defense securities other than bills under the authorization of the (first) Revenue Act of 1940, and they were also the first Treasury notes that have been issued which are subject to all Federal income, estate, and gift taxes. The new Defense notes, heavily oversubscribed on December 11, were allotted on the

basis of 13 per cent of individual subscriptions but not less than \$100 on any one subscription. Total subscriptions allotted amounted to \$530,838,700, of which about half was allotted in the Second Federal Reserve District.

After establishing a new record high on December 10, the average price of long term Treasury bonds declined $\frac{3}{4}$ of a point by December 20, but subsequently showed a net recovery of about $\frac{3}{8}$ point. The medium term Treasury issues acted in much the same way.

Treasury note prices moved up slightly from the beginning of December to the 9th, the average yield on 3 to 5 year Treasury notes declining from 0.35 per cent to 0.31 per cent (a new low). Through most of the remainder of the month prices held at a somewhat lower level.

Treasury bill financing during December consisted of four weekly issues in the National Defense Series, each in the amount of approximately \$100,000,000 and each a replacement of similar maturities. The accepted bids for the issue dated December 4 were awarded at 0.002 per cent and those for the December 11 issue at 0.001 per cent. Except for \$30,000 tendered at slightly above par, the bids accepted for the December 18 issue were tendered at par; those for the December 26 issue were at prices slightly above par and at par.

Money Rates in New York

	Dec. 30, 1939	Nov. 30, 1940	Dec. 30, 1940
Stock Exchange call loans	1	1	1
Stock Exchange 90 day loans	*1 $\frac{1}{4}$	*1 $\frac{1}{4}$	*1 $\frac{1}{4}$
Prime commercial paper 4-6 months	$\frac{1}{8}$ - $\frac{5}{8}$	$\frac{1}{8}$ - $\frac{5}{8}$	$\frac{1}{8}$ - $\frac{5}{8}$
Bills—90 day undorsed	$\frac{1}{16}$	$\frac{1}{16}$	$\frac{1}{16}$
Average yield on Treasury notes (3-5 years)	0.46	0.35	0.36#
Average yield on Treasury bonds (not callable within 12 years)	2.30	2.04	1.98
Average rate on latest Treasury bill sale, 90 day issue	0.007	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	$\frac{1}{2}$	$\frac{1}{2}$	$\frac{1}{2}$

* Nominal. ‡ Negative yield.

Change of +0.03 per cent from previous yields due to dropping from the average the $1\frac{1}{8}$ per cent Treasury note issue of December 15, 1943, which matures within three years.

COMMERCIAL PAPER AND BILLS

During December the limited supply of paper remained the primary influence restricting transactions in the commercial paper market. Rates previously in effect were maintained. The amount of paper outstanding through reporting commercial paper houses at the end of November was \$231,800,000, or approximately \$20,000,000 less than a month earlier—a decline sufficient to cancel the increases of the preceding three months. A year ago outstandings aggregated \$214,400,000.

The bill market continued during December in the same dormant condition that has prevailed for some time past, and quoted rates held steady. The total amount of bankers acceptances outstanding at the end of November was approximately \$196,700,000, a further

monthly increase of \$10,000,000. This increase was accounted for by moderate rises in outstandings of import bills and domestic warehouse credits. As compared with November, 1939, bills outstanding were down \$26,000,000, principally because of a decline in export bills.

New Financing

During December a total of \$560,000,000 of corporate and municipal new security issues was publicly offered or privately sold; more than two thirds of the total financing was concentrated in the first half of the month. This was the largest total for any month since June, 1939, with the exception of October, 1940. Corporate financing, which amounted to \$380,000,000, exceeded that of any month during the last three and one-half years with the exception again of October, 1940. However, the amount representing new capital, \$55,000,000, was below the average of recent months.

The principal corporate and municipal new security issues marketed during December were as follows:

CORPORATE

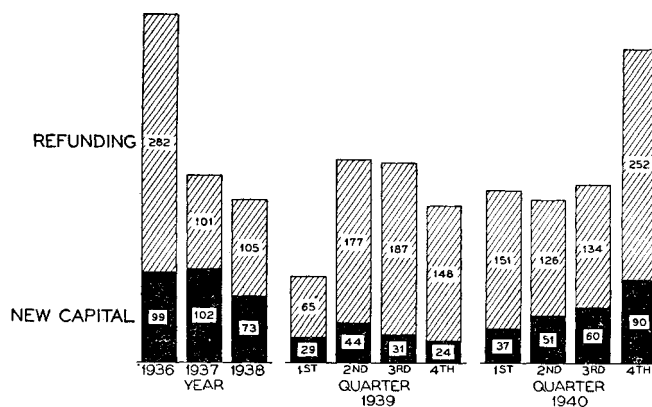
- \$101,800,000 Appalachian Electric Power Company securities consisting of \$70,000,000 of 3¼ per cent first mortgage bonds of 1970, priced at 107 to yield 2.90 per cent; and 300,000 shares (\$31,800,000) of 4½ per cent preferred stock priced at 106; for refunding purposes
- 70,000,000 National Dairy Products Corporation securities consisting of \$55,000,000 3¼ per cent term debentures of 1960, priced at 104¾ to yield 2.93 per cent; and \$15,000,000 0.375-2.10 per cent serial debentures maturing 1941-50, priced at par; \$2,600,000 of the above for new capital purposes
- 53,000,000 Boston Edison Company 2¾ per cent first mortgage bonds of 1970, priced at 105 to yield 2.51 per cent; for refunding purposes
- 50,000,000 Detroit Edison Company 3 per cent general and refunding bonds of 1970, priced at 107¼ to yield 2.65 per cent; for refunding purposes.

MUNICIPAL

- \$55,000,000 City of New York 2¾ per cent serial bonds of 1941-70, priced to yield 0.30-2.85 per cent; for new capital purposes
- 27,750,000 Port of New York Authority 3 per cent bonds of 1975, priced at 102¾ to yield 2.875 per cent; for refunding purposes
- 25,000,000 New York State 1½ per cent serial bonds maturing 1941-80, priced to yield 0.15-1.56 per cent; for new capital purposes.

Short term State and municipal awards not included in the \$560,000,000 total accounted for an additional \$105,000,000. Included in this classification were \$45,000,000 New York City 0.25 per cent revenue bills maturing in March and April, 1941, and \$25,000,000 Commonwealth of Pennsylvania 1½ per cent tax notes maturing in April, 1941. The latter were reoffered to yield 0.15 per cent.

Public announcements made during December indicate the following forthcoming issues: \$35,000,000 Phillips Petroleum Company debentures and notes, \$12,570,000 Union Pacific Railroad Company equipment trust certificates, and \$11,500,000 Southern Counties Gas Company



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

bonds. A substantial amount of other new security flotations is reported to be under consideration by various companies, but few of the issues have yet progressed to the point of registration with the Securities and Exchange Commission.

As indicated in the accompanying chart, the monthly average of corporate new security issues during the final quarter of 1940 was the largest for any quarter in more than two years. For the calendar year as a whole, corporate financing averaged \$225,000,000 a month, which with the exception of 1936 was the highest level reached since 1930. Corporate flotations representing new capital averaged \$60,000,000 a month in 1940 or almost double the average for 1939. The portion of corporate financing arranged through the private placement of securities represented about one third of the grand total, approximately the same proportion that prevailed in 1938 and 1939.

Security Markets

Stock prices, which had been declining in the latter part of November, continued to ease early in December. Slightly firmer quotations prevailed between December 6 and 13, however, owing in part perhaps to news of Greek and British military successes. Subsequently, prices again weakened and at the month's low on December 23 the average price of common stocks included in Standard Statistics 90 stock index showed a cancellation of 42 per cent of the June-November rise and was 19 per cent below the year's high reached on January 3, 1940. As the month neared its close a stronger tone was in evidence. In contrast to the experience in November, public utility stocks were steadier in December than industrial or railway issues. The volume of stock trading picked up somewhat after the first week of December but did not approach the early November level.

Prices of high and medium grade bonds reached new highs during December. The price average of the prime corporate bonds constituting the Aaa list of Moody's Investors Service advanced about ½ point between November 30 and December 12 to another record level, but, subsequently, this gain was lost. The average price

of Moody's Baa (medium grade) corporate bonds moved up $\frac{3}{4}$ of a point between December 2 and 17, again establishing a new high, which, in turn, was slightly exceeded on the 30th, after an intervening period of somewhat lower quotations. High grade municipal bonds, as measured by the Standard Statistics price index, moved irregularly after setting another record high on December 11. As in November, the possibility that tax exemption features of municipal bonds might be eliminated from future issues apparently had a bearing on the strong showing of the municipals early in December.

Gold Movements

Imports of gold into the United States during December were considerably smaller than in other recent months, and the increase of about \$195,000,000 in the gold stock of the United States was the smallest for any month since October, 1939. The amount of gold held under earmark for foreign account at the Federal Reserve Banks was reduced about \$5,000,000 during December to a total of approximately \$1,810,000,000. For the year 1940, the rise in the gold stock was far greater than in any previous year, amounting to about \$4,350,000,000, as compared with the previous record of \$3,130,000,000 in 1939. Earmarked gold holdings for foreign account rose \$650,000,000 during the past year.

In the five weeks ended December 25, the Department of Commerce reported the receipt of \$200,800,000 of gold in the following principal amounts: \$142,300,000 from Canada, \$15,000,000 from Australia, \$13,000,000 from Argentina, \$9,100,000 from British India, \$4,200,000 from Japan, \$4,100,000 from the Philippines, \$3,200,000 from South Africa, \$2,800,000 from Colombia, \$1,500,000 from Portugal, and \$1,100,000 from Chile.

Foreign Exchanges

During the month of December trading in the New York foreign exchange market continued inactive and exchange rate fluctuations were insignificant. The low volume of turnover in the exchange market is, of course, the result not only of the various legal obstructions to capital movements, both here and abroad, but also of the greatly increased tendency for exports and imports to be invoiced in terms of dollars instead of foreign currencies.

The Canadian monetary authorities have issued several additional regulations, at least one of which should have the effect of restricting further the demand for the Canadian dollar in the free market. The regulations have been revised to prevent the use by nonresidents of "free market" Canadian dollars in payment for various business services rendered in Canada, although certain small services are exempt from this order. In the New York market, the unofficial discount on Canadian dollars widened from 13 per cent at the beginning of the month to $14\frac{1}{8}$ per cent on December 10, but narrowed again to close the month at $13\frac{7}{8}$ per cent.

Some movement occurred in the rate for the Shanghai dollar during the past month. Following the announce-

ment that \$100,000,000 was to be made available to the Chinese authorities by United States Government agencies, the quotation for the Chinese currency appreciated somewhat to 6 cents in the early part of December. Subsequently, however, a weaker tendency developed, apparently in anticipation of the early establishment of a new central bank in the area controlled by the Nanking Government. The prospect of the substitution of a new currency for National Chinese dollars now circulating in this area may have stimulated a speculative demand for foreign exchange in the Shanghai market. The Chinese dollar was quoted as low as $5\frac{3}{8}$ cents on December 23. By the end of the month, however, the rate had recovered slightly.

The discount on the Cuban peso temporarily widened somewhat on December 10, but showed no net change for the month as a whole. A temporary reaction also occurred in the Swiss franc in mid-December, when the rate declined to \$0.2318, but a recovery to around \$0.2321 occurred shortly afterward.

Foreign Trade

Exports of merchandise from the United States, at a value of \$328,000,000 during November, showed a decrease of about 5 per cent from the previous month, though exceeding the figure of a year earlier by 12 per cent. On the other hand, imports, valued at \$223,000,000, were 8 per cent larger than in October but 5 per cent less than in November, 1939. The resulting excess of exports of \$105,000,000 in the past November was nearly double that of a year previous but was smaller than the export balance in most months of 1940.

The decline between October and November in the value of exports was due in part to decreases of a seasonal nature in exports of agricultural products, and in part to reductions in shipments abroad of a number of nonagricultural products. Cotton exports were valued at approximately \$3,000,000 less than in October and were equal to only about one-fourth the November, 1939, figure. Shipments abroad of aircraft—largely to Great Britain—declined to \$26,738,000 in November from \$31,389,000 in the previous month, but were four times as large as in November, 1939. There was also a sizable drop between October and November in exports of iron and steel semimanufactures. On the other hand, exports of automobiles (both passenger cars and motor trucks), gasoline, metal-working machinery, and firearms exceeded those of October, and the majority of these exports showed exceptionally large gains over November, 1939.

Among the imports, the principal factors in the increase between October and November were considerably larger receipts of silk, ferro-manganese, furs, newsprint paper, coffee, and hides and skins. Imports of copper, burlap, fruits and nuts, and tobacco, however, were somewhat smaller than in the previous month. Compared with November, 1939, large dollar gains were recorded in receipts of such commodities as rubber, silk, tin, sugar, wool, and copper, while considerable reductions were shown in imports of woodpulp, coffee, diamonds, and expressed vegetable oils.

For the first eleven months of 1940, total exports amounted to \$3,703,000,000 and imports to \$2,372,000,000. The Department of Commerce estimates that exports and imports for the entire year of 1940 will aggregate \$4,000,000,000 and \$2,600,000,000, respectively. On the basis of these estimates, exports for 1940 would exceed those for any calendar year since 1929; imports, with the exception of 1937, would be the largest since 1930.

Exports from this country to Canada during the first ten months of 1940 amounted to \$561,000,000, representing 17 per cent of the aggregate value of shipments to all nations, and imports from Canada amounted to \$327,000,000, which was equal to 16 per cent of the total value of imports into the United States from all countries. Exports to Canada in the ten months exceeded the dollar volume in the corresponding period of 1939 by \$178,000,000—a 46 per cent increase; receipts of products from Canada showed a gain of \$58,000,000, or 22 per cent over the first ten months of 1939. As is indicated in the accompanying table, more than one half of this country's exports to Canada in the first ten months of 1940 consisted of finished manufactures. Large gains compared with the corresponding period of 1939 in exports of these products, as well as of semimanufactures were no doubt due chiefly to increased demands from Canada for war materials. As in the case of exports, finished manufactures were the leading economic group among imports from Canada, although the increase over the comparable period of 1939 in imports of this classification was relatively small. Imports of semimanufactured goods, however, showed a substantial gain, owing in part to greater requirements in this country of Canadian woodpulp and nickel.

United States Merchandise Trade with Canada
(In millions of dollars)

	Value, first 10 months of 1940		Change in value from corresponding period of 1939	
	Exports*	Imports**	Exports*	Imports**
Crude materials.....	122.9	42.7	+ 20.7	+11.1
Crude foodstuffs.....	28.5	29.3	+ 6.3	+ 0.6
Manufact'd foodstuffs.....	11.4	19.0	+ 0.8	- 1.0
Semimanufactures.....	95.3	112.5	+ 42.1	+30.8
Finished manufactures.....	302.6	123.6	+107.6	+16.9
Total.....	560.7	327.1	+177.5	+58.4

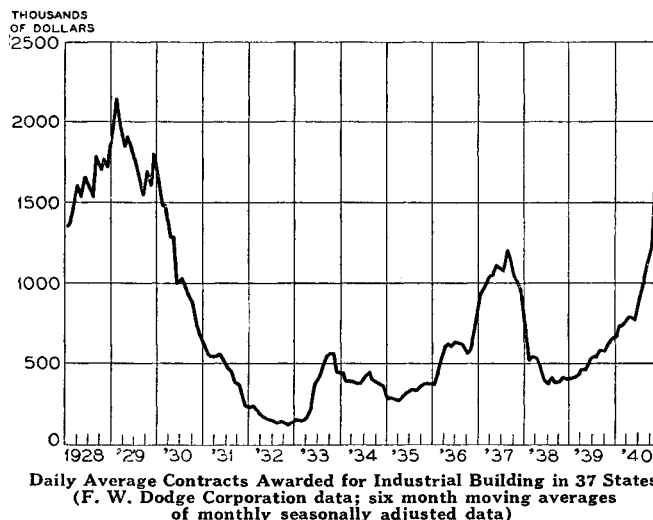
*Domestic exports

**Imports for consumption

Building

The average daily rate at which construction contracts were awarded in 37 Eastern States during November showed an increase of 8 per cent over October and reached the highest level for any month since June, 1930, according to data of the F. W. Dodge Corporation. In comparison with November a year ago the daily rate of awards was 27 per cent higher. More than one quarter of the November total was accounted for by projects associated with National defense, a considerably larger proportion than in October.

Well above half of the National defense construction contracts during November was concentrated in non-residential building. On a daily average basis, awards



in this category also reached the highest level since June, 1930, and were 18 per cent larger than in October and 91 per cent greater than in November, 1939. Industrial building was the important factor in the rise in the nonresidential classification; public purpose building made the poorest comparisons. Augmented to some degree by cantonment construction, residential building contracts in November attained the highest level since July, 1929, were 12 per cent larger than in October, and 31 per cent above those a year earlier. Owing to a falling off in public works awards, heavy engineering construction lagged 12 per cent behind the October volume and 25 per cent behind that of a year previous.

The accompanying chart portrays the sharp rise which has occurred in industrial building. In the six months ended with November the volume of contracts awarded in this class exceeded that of any other six months' period since 1929, and awards in November alone, aggregating \$79,000,000, reached the largest monthly total in the sixteen years for which records are available. Industrial building was importantly stimulated by the National defense program during the second half of 1940; projects identified with the defense effort accounted for a little less than half of the total value of industrial building awards in the period June to November, inclusive. Contract awards for industrial building usually account for 10 per cent or less of awards of all classes; in November this percentage rose to 21.

In New York and Northern New Jersey, building contracts in November showed quite different tendencies from those prevailing in the 37 Eastern States. Defense construction bulked somewhat larger in the total for this area in November than in October, but the daily average rate of contract awards of all classes declined 13 per cent below October and 33 per cent below November, 1939. The decline from October in this area was caused wholly by a sharp drop of 54 per cent in nonresidential building, which was down 65 per cent as compared with a year before. In this category, the industrial, public purpose, and commercial classifications all showed substantial reductions from October levels, while miscellaneous building rose 29 per cent.

Largely as a result of new defense construction, the rate of awards for heavy engineering projects was up slightly from October, but nevertheless was 28 per cent below the level prevailing in November, 1939. A 21 per cent increase in residential building over the October level was largely accounted for by defense projects. November residential building awards were in about the same daily volume as a year before.

During the first two weeks of December, the daily rate of construction contract awards in the 37 States declined 7 per cent from the level prevailing in the month of November, but was 82 per cent above the corresponding weeks of 1939. The decline from November was attributable primarily to a decrease of 26 per cent in the rate of residential building awards. The daily average rate of heavy engineering awards was also off slightly. Non-residential building, however, was 10 per cent above the November rate, and for the first time since January, 1939, the value of contracts awarded for nonresidential building was greater than awards made for residential building.

Commodity Prices

Although some rising tendencies were apparent in the principal wholesale commodity markets during December, prices of most basic commodities moved within relatively narrow limits and registered only small net changes for the month as a whole.

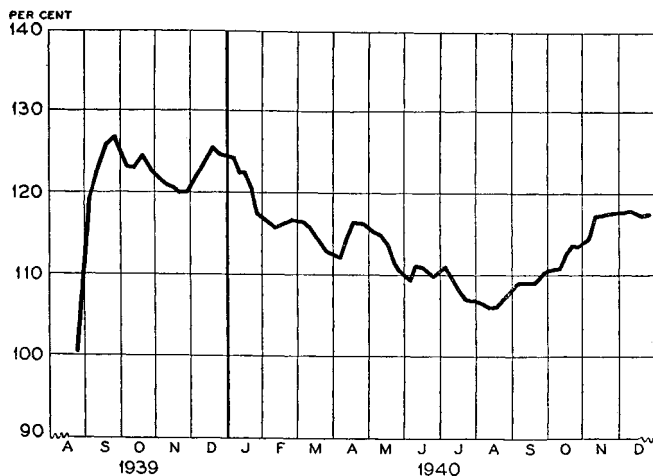
The accompanying chart shows the course, since the outbreak of the present European war, of the Bureau of Labor Statistics daily price index of 28 basic commodities. The combined index has held relatively steady for the past six weeks, following an advance of about 11 per cent from the August, 1940, low point. The current level is nearly 18½ per cent above the prewar (August, 1939) average.

Wheat prices sagged slightly in the first half of December, reflecting some seasonal increase in country offerings and reports of favorable crop weather, but tended

to display strength throughout the remainder of the month. A Government forecast, announced on December 20, placed the 1941 winter wheat crop at 633,000,000 bushels, which would be the largest since 1938. Spring wheat in Minneapolis at 89 cents a bushel on December 30 was 2 cents higher than at the end of November. Corn in Chicago, however, showed little net change for the month. Hog quotations advanced 98 cents further to \$6.96 a hundredweight, and steers at \$12.58 a hundredweight on December 27 were the highest since November, 1937. Following the Government announcement of the 1941 sugar quota at the lowest initial figure since 1936, the price of sugar advanced to 2.95 cents a pound on December 11, but subsequently moved lower, with a net gain of 5 points for the month.

Under the stabilizing influence of the cotton loan program, cotton prices fluctuated only slightly during most of the past month, but strengthened considerably in the last few days' trading. The Government's estimate, published on December 9, of the 1940 crop based on conditions as of December 1, shows a downward revision to 12,686,000 bales, compared with the previous estimate of 12,847,000 bales. There was a net advance during the month of 33 points to 9.83 cents a pound in the average price for spot cotton in 10 Southern markets. Wool tops rose 4 cents further to \$1.24 a pound on December 17, but subsequently lost most of that gain. Silk quotations remained steady throughout the month, but prices of hides and rubber drifted somewhat lower.

The metal markets were generally firm in December. According to the composite indexes of the *Iron Age*, pig iron prices were advanced 83 cents during the month to \$23.44 a ton, the first change since September, 1939, and scrap steel prices rose 83 cents further to \$21.83 a ton, the highest price since October, 1939. Custom smelter and export copper prices were up somewhat, but the quotation for lead in New York was lowered on December 2 from 5.65 to 5.50 cents a pound, at which level it was maintained throughout the remainder of the month.



Daily Index of Wholesale Commodity Prices, Computed by Bureau of Labor Statistics (August, 1939=100 per cent; weekly plottings)

Production and Trade

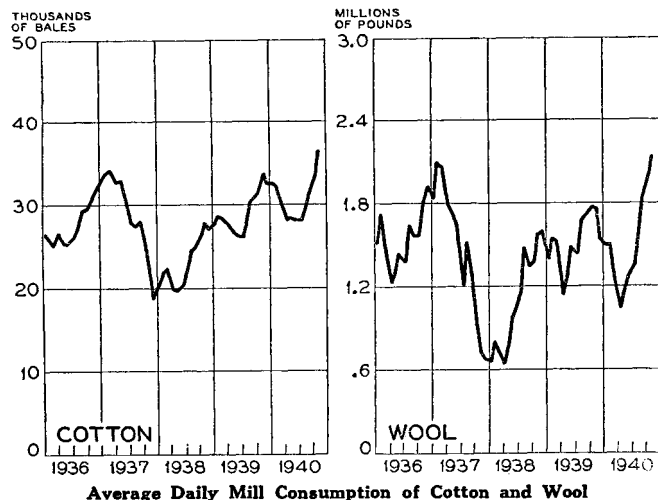
Available data for December indicate a further rise in the general level of business activity, seasonal factors considered. In retail trade there was the usual sharp expansion, and department store sales apparently reached the highest Christmas level since 1929. Industrial operations in many cases showed marked resistance to the curtailment which ordinarily characterizes December, and building construction was unusually active considering the season of the year.

Despite temporary interruptions for necessary repairs, steel mill operations again averaged about 96 per cent of capacity (after making allowance for Christmas holiday shutdowns). In most past years there has been a substantial seasonal contraction in steel making between November and December. Early in the month the current scale of steel prices was reaffirmed for the first quarter of 1941, but incoming orders continued in heavy

volume throughout the month and trade comments indicated that there was a further increase in backlogs of unfilled business. A formal order priority system under Government sponsorship was reported under discussion, but no definite action instituting such a system was announced. Automobile manufacturers maintained heavy production schedules in an effort to satisfy a strong retail demand for cars and trucks, as well as to build up dealers' stocks. Although mill sales of cotton gray goods were comparatively light, it was reported that the mills continued at a high rate of activity on orders previously booked. Railway freight traffic was reduced less than in most other years, and electric power production, at the peak of the year as is usual in December, appears to have increased more than seasonally over November.

In November the upswing in business activity continued vigorously; this bank's index of production and trade—to some extent aided by the failure of usual seasonal contractions to develop in a number of lines—moved up 3 points further to 99 per cent of estimated long term trend, the highest level in more than ten years. In November, 1939, the index stood at 93. Each of the major segments of the index—production, primary distribution, and distribution to consumers—contributed to the general advance in November.

In production, both durable and nondurable goods industries continued to benefit from a sustained flow of National defense and war orders and an active demand for goods from civilian sources. Near capacity operations again prevailed at steel mills, machine tool plants, shipyards, and airplane factories. The daily rate of automobile production in November exceeded that of any other month since the spring of 1937, although the gain over the relatively high rate of October was not so pronounced as in some recent years. The sharp rise in operations at cotton and woolen textile mills, which began last summer, proceeded further in November, as the accompanying chart indicates, and new record levels were attained. Shoe production declined much less than is usually the case in November, and electric power production moved steadily higher.



Railroad freight car loadings as a whole declined considerably less than usual in November; coal shipments, which had been curtailed in the previous month, recovered sharply in November. Retail trade made an exceptionally favorable showing; the brisk demand for automobiles was unabated, and, after allowance for seasonal factors, sales of department stores, mail order houses, and chain store systems expanded markedly.

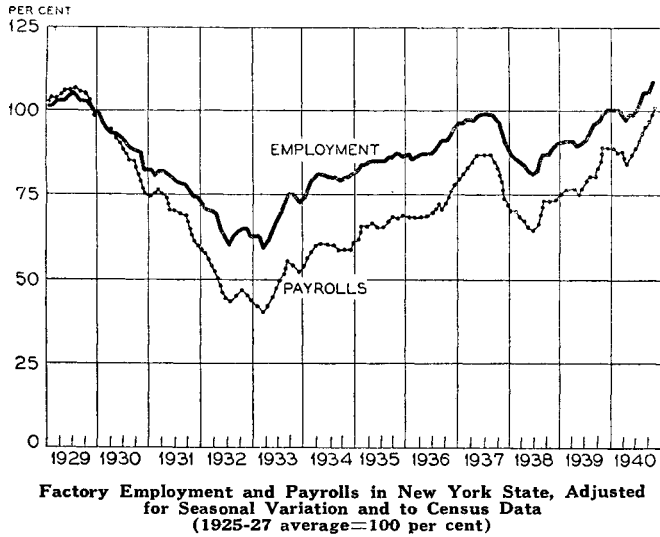
(Adjusted for seasonal variations and estimated long term trend; series reported in dollars are also adjusted for price changes)

	1939	1940		
	Nov.	Sept.	Oct.	Nov.
<i>Index of Production and Trade</i>	93	94	96 _p	99 _p
<i>Production of:</i>				
Producers' durable goods.....	96	97	101 _p	107 _p
Producers' nondurable goods.....	100	100	101 _p	106 _p
Consumers' durable goods.....	66	79	86 _p	80 _p
Consumers' nondurable goods.....	97	96	98 _p	101 _p
Primary distribution.....	89	87	87 _p	92 _p
Distribution to consumer.....	95	96	97 _p	102 _p
<i>Industrial Production</i>				
Steel.....	127 _r	114	121	128
Automobiles.....	66	117	116	94
Bituminous coal.....	96 _r	96	79	92 _p
Crude petroleum.....	92	85	86	86 _p
Electric power.....	98	101	103 _p	104 _p
Cotton consumption.....	115	112	116	125
Wool consumption.....	122	133	134	151
Shoes.....	117	99	99 _p	111 _p
Meat packing.....	100	101	108	111
Tobacco products.....	97	90	95	95
<i>Manufacturing Employment</i>				
Employment.....	96	98	100 _p	103 _p
Man-hours of employment.....	94	95	97 _p	102 _p
<i>Construction</i>				
Residential building contracts.....	50	58	53	62
Nonresidential building and engineering contracts.....	70	60	77	83
<i>Primary Distribution</i>				
Ry. freight car loadings, mdse. and misc..	90	87	89	94
Ry. freight car loadings, other.....	94	95	87	95
Exports.....	81 _r	85	89	89 _p
Imports.....	85	76	77	85 _p
<i>Distribution to Consumer</i>				
Department store sales (U.S.) r.....	91	96	92	99
Grocery chain store sales.....	101	95	97	100 _p
Variety chain store sales.....	98	99	95	107
Mail order house sales.....	93	98	94 _p	100 _p
New passenger car sales.....	83	82 _r	105 _p	105 _p
<i>Velocity of Deposits*</i>				
Velocity of demand deposits, outside New York City (1919-25 average=100).....	62	55	54	61
Velocity of demand deposits, New York City (1919-25 average=100).....	30	25	26	29
<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	114 _p

p Preliminary r Revised * Not adjusted for trend

Employment and Payrolls

During November, New York State factories increased their working forces and payrolls 1 per cent further, contrary to the usual seasonal tendencies. The largest increases in employment occurred mainly at firms in the metal and textile industrial groups. Shipyards, railroad repair shops, and plants producing structural steel, nonferrous metal products, automobiles, and airplanes hired more workers in November, as did manufacturers of cotton and woolen textiles. Clothing and millinery firms and canning factories, on the other hand, reduced working forces seasonally. Compared with November,



1939, factory employment was 10 per cent greater, and payrolls were 15 per cent larger. All of the principal industrial districts of the State shared in these advances.

As the accompanying diagram indicates, this bank's seasonally adjusted index of New York State employment in November was above the 1929 peak, and at the highest point in seventeen years. The payrolls index was higher than at any other time since 1929, but was still 5 per cent below that year's peak. The fact that the normal working week is much shorter today than in 1929 accounts for the lower relative level of the payrolls index. However, as a result of increased basic wage rates, and increased actual working hours in many plants (with overtime paid for at premium rates), the increase in the payrolls index has been greater than the advance in the employment index in each of the last seven months.

In the United States as a whole, working forces and wage payments in factories increased slightly further during November, whereas ordinarily both employment and payrolls decrease at this time of year. The employment gains occurred largely in durable goods industries; working forces in the nondurable goods group as a whole declined, though somewhat less than seasonally. Factories producing machine tools, aircraft, electrical machinery, and automobiles continued to take on more workers, while manufacturers of clothing, shoes, and food products reduced their forces. Compared with November, 1939, employment was 6½ per cent higher and payrolls were 13 per cent larger.

During November, approximately 40,000 more persons were estimated to have been employed in all nonagricultural pursuits than in October, although in the preceding eleven years there was an average decline between these two months of around 400,000 persons, according to the Secretary of Labor. Manufacturing plants hired 50,000 more workers in November, and wholesale and retail trade establishments added 60,000 employees, while employment in the transportation and public utility fields declined. Total employment in all nonagricultural occupations was estimated at 36,500,000 workers, approxi-

mately 1,100,000 more than in November, 1939. These totals do not include persons in the military branch of the Government, which increased 90,000 in November to more than 800,000, nor do they include Federal emergency employment.

Department Store Trade

For the four weeks ended December 28, total sales of the reporting department stores in this District are estimated to have increased by about 6½ per cent from the corresponding 1939 period, and the daily rate of sales for this portion of December advanced about as usual from the relatively high November level.

Total November sales of the reporting department stores in this District were about 7 per cent higher than in November, 1939, and the daily rate of sales for November advanced considerably more than usual from the October level. Department stores in nearly all localities reported substantial increases in sales from November, 1939, while sales of the leading apparel stores in this District were practically unchanged from November, 1939.

Stocks of merchandise on hand in the department stores, at retail valuation, were about 5½ per cent higher at the end of November, 1940, than at the end of November, 1939, while apparel store stocks were little changed. Collections of accounts outstanding continued slower in 1940 than in 1939 in the department stores, but were practically unchanged in the apparel stores.

Locality	Percentage change November, 1940 compared with November, 1939		Per cent of accounts outstanding October 31 collected in November	
	Net Sales	Stock on hand end of month	1939	1940
New York and Brooklyn	+ 6.4	+ 4.4	50.2	49.6
Buffalo	+12.5	+ 5.9	46.1	45.4
Rochester	+ 7.1	+ 6.0	62.0	50.6
Syracuse	+12.2	+ 1.9	43.8	43.7
Northern New Jersey	+ 7.4	+ 9.5	42.2	38.4
Bridgeport	+18.0	+11.9	40.7	43.8
Elsewhere	+ 4.4	+ 4.1	38.2	39.5
Northern New York State	+ 7.5	.....	.....	.....
Southern New York State	+ 6.9	.....	.....	.....
Central New York State	+14.8	.....	.....	.....
Hudson River Valley District	+ 2.3	.....	.....	.....
Westchester and Stamford	-14.2	.....	.....	.....
Niagara Falls	+ 4.3	.....	.....	.....
All department stores	+ 7.1	+ 5.4	47.7	45.6
Apparel stores	+ 0.2	+ 0.6	49.4	49.3

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

	1939	1940		
	Nov.	Sept.	Oct.	Nov.
Sales (average daily), unadjusted	115r	108	108	120
Sales (average daily), seasonally adjusted	96r	104	95	101
Stocks, unadjusted	94r	85	93	100
Stocks, seasonally adjusted	79r	81	82	84

r Revised

FEDERAL RESERVE BANK OF NEW YORK
MONTHLY REVIEW, JANUARY 1, 1941

Business Conditions in the United States

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

INDUSTRIAL activity continued at a high rate in November and the first half of December and distribution of commodities increased considerably. Commodity prices generally showed little change following earlier advances.

PRODUCTION

Volume of industrial production, which usually declines at this season, showed little change from October to November, and the Board's seasonally adjusted index rose 3 points further to 132 per cent of the 1935-1939 average.

Reflecting work on a large volume of orders for National defense purposes and for civilian needs, activity in the machinery and textile industries continued to increase sharply. At machinery plants and at cotton textile mills activity reached new high levels and at woolen mills output was close to the previous peak reached early in 1937.

Steel ingot production, which had been at about 94 per cent of capacity in October, increased somewhat further in November and the first half of December. Automobile production continued in unusually large volume, amounting in November to around 500,000 cars and trucks. Retail sales of new cars have been large this autumn and production has been maintained at high levels in order to supply this demand and to build up dealers' stocks. Lumber production declined less than seasonally from October to November. New orders for lumber continued somewhat above the current rate of production although below the high level of the three preceding months when large orders were placed for cantonment construction. Lumber stocks at mills continued to decline and were smaller than at any time in recent years. Bituminous coal production increased considerably in November, following a sharp decline in the previous month, while output of crude petroleum was maintained at about the October rate. Production of most metals continued in large volume.

Value of total construction contract awards declined less than seasonally in November. In the 37 eastern States for which F. W. Dodge Corporation data are available total contracts showed little change; awards for public construction increased further and those for private work declined by somewhat less than the usual seasonal amount. In the far western States contract awards showed a decline from the unusually high level reached in October.

DISTRIBUTION

Distribution of commodities to consumers increased considerably in November. Sales at department stores and mail order houses rose sharply, while variety store sales increased by about the usual seasonal amount. In the first half of December there was the customary large expansion in retail sales.

Total freight car loadings showed considerably less than the usual seasonal decline in November and the early part of December. Loadings of coal, which had been curtailed in October, increased sharply and shipments of ore and of miscellaneous merchandise declined much less than is usual at this time of the year.

WHOLESALE COMMODITY PRICES

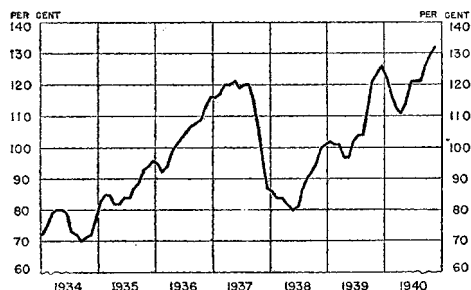
Prices of basic commodities, which had risen substantially since August, generally showed little change from the middle of November to the middle of December. Prices of a few imported commodities, particularly cocoa, burlap, and shellac, increased considerably and there were small advances in steel scrap and some other domestic commodities, while moderate declines were reported for such varied commodities as lead, grains, and lard.

BANK CREDIT

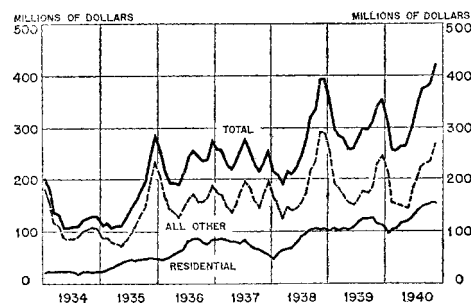
Total loans and investments at reporting member banks in 101 leading cities have increased sharply since the beginning of October. Commercial loans continued to increase in November and the first half of December, and holdings of United States Government obligations at New York City banks rose sharply. Principally as a result of the expansion of bank loans and investments, Government expenditures, and foreign disbursements financed by additional gold imports, bank deposits increased to new high levels. At the same time there has been a considerable increase in currency in circulation partly in response to seasonal trade demands.

UNITED STATES GOVERNMENT SECURITY PRICES

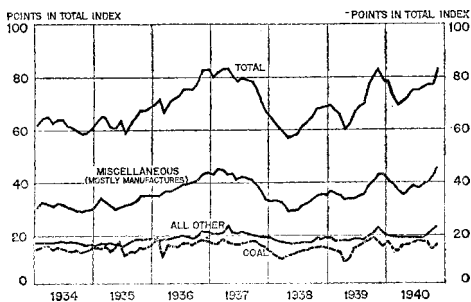
Prices of United States Government securities continued to rise during the latter half of November and the early part of December, and the 1960-65 bonds advanced to successive new high levels, with a peak of about 111½ on December 10. The yield on this issue declined to a low point of 2.03 per cent on the latter date, but increased slightly toward the middle of the month, reflecting some easing in prices.



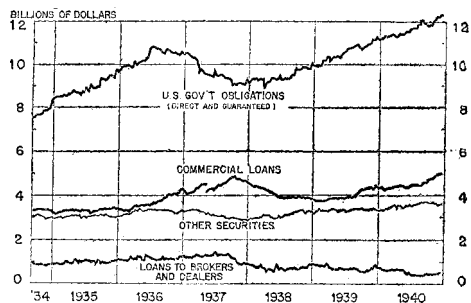
Index of Physical Volume of Industrial Production, Adjusted for Seasonal Variation (1935-1939 average=100 per cent)



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



Index of Total Loadings of Revenue Freight, Adjusted for Seasonal Variation (1923-1925 average=100 per cent; miscellaneous, coal, and all other car loadings expressed in terms of points in total index)



Wednesday Figures for Reporting Member Banks in 101 Leading Cities (Latest figures are for December 11)