MONTHLY REVIEW

Of Credit and Business Conditions

by the Federal Reserve Agent at the Federal Reserve Bank of New York

New York, September 30th, 1920.

Credit and Declining Prices

DURING the past month manufacturers and merchants in growing numbers have yielded to the shrinking public demand for goods at prevailing high prices and have marked down prices to levels designed to stimulate demand and enable them to keep up the production and distribution of goods.

The effect of this overtaking of demand by supply has been to reestablish competition in one industry after another; that is, competition between sellers, which during the war had given way to competition between buyers with the inevitable increase of prices and credit volume implied in such a condition. Natural forces are now again asserting themselves and prices in future will develop from natural causes rather than as an accompaniment of the constant creation of new purchasing power set in motion by the necessity of conducting the war on a basis more extensive than current saving could finance. Competition, when it is once more generally reestablished, will determine the level at which prices will finally become stabilized, and the return of competition will assure our gradual but eventual return to more healthy business conditions and living costs.

Just as credit and prices went up together, they should come down together, too. During the past month there has been no decrease in the loans and investments of the banks of the country, but material reductions should not be expected at present. Credit requirements are nearly always at their peak in the autumn; and besides the normal seasonal demands, a period of transition to lower prices like that which we are now experiencing is one which requires temporarily, at least, additional credit. On the one hand increasing inventories which result from slowly moving stocks, and on the other cancelled orders and poor collections produce a demand for credit not unlike that of last spring when the railway and ocean freight movements were temporarily congested. Such a period calls for a credit policy on the part of the banks looking to conservation of sound business. Such additional credits as are required are not for further expansion but are for the protection of industry. They are to enable business men to undertake in an orderly manner the reduction of inventories and the descent to lower price levels. That the readjustment, which has been quite radical in many industries, has proceeded quietly and confidently has been due in very large part to the helpful and constructive attitude of the bankers who, in spite of the heavy withdrawals of their deposits and the unusual movements of funds described in the following section, have not hesitated, if necessary, to increase their borrowings from the Federal Reserve Bank to furnish such credits for production and distribution as conditions have required.

Movements of Funds

In the last ninety days the movement of funds between New York and other parts of the country was unusually active, reaching its maximum rapidity and volume around the September 15 tax collection period. These transfers of funds were effected through the Federal Reserve System, the machinery and credit elasticity of which made it possible to set up against each outward flow of funds an inward flow, thus maintaining the equilibrium of the credit reservoir, and assuring to borrowers steady credit facilities and rates. The following are some of the main transactions of the period:

1. Deposits of the principal banks in New York City decreased $320,000,000 from July 2 to September 7, on account of Government and commercial withdrawals.

2. These withdrawals caused a steady drain of gold from the Federal Reserve Bank of New York to other Federal Reserve Banks, accelerating toward the end of the period, and in the three weeks ended September 17 aggregating $198,000,000.

3. This adverse flow of funds was substantially offset by Government transfers to New York, by the sale of certificates of indebtedness by New York banks to other Federal Reserve Banks, and by rediscount operations between Federal Reserve Banks.

4. These rediscount operations comprised the following:

On July 20 other Federal Reserve Banks owed the Federal Reserve Bank of New York $45,000,000. By August 27 repayment of these loans was completed.

On September 3 the Federal Reserve Bank of New York owed other Federal Reserve Banks $47,500,000. By September 21 repayment of these loans was completed.

Between September 8 and 15 the deposits of principal New York banks rose $453,000,000, in connection with the following transactions:

1. Certificates of indebtedness were redeemed and paid in this district in the amount of $425,000,000, which was $195,000,000 more than the taxes payable.
2. This excess of redemptions over taxes on September 15 necessitated as usual a loan by this bank to the Government. The amount, $146,000,000, was repaid gradually and was extinguished on September 23.
3. The banks of the district on September 15 increased their deposits $200,000,000, when they paid for their subscriptions to the new issues of certificates by crediting that amount on their books to the account of the Government.

Following this large increase in deposits:

1. The principal banks of New York City reduced their borrowings at the Federal Reserve Bank between September 8 and 16 by $237,000,000.
2. Their deposits then began to decline again as their customers' tax checks were collected, and as they sold certificates of indebtedness to their customers.
3. Consequently they have been obliged again to increase their borrowings at the Federal Reserve Bank, a course which experience shows is likely to be followed increasingly when the Government begins to withdraw from them the deposits resulting from the latest sale of certificates.

These heavy movements of funds changed the position of the Federal Reserve Bank of New York rapidly from week to week and sometimes from day to day. Disregarding rediscounts and sales of acceptances between Federal Reserve Banks, the lowest combined reserve percentage of this bank was 31.6, its highest was 43. But despite these fluctuations, the reserve position of the Federal Reserve System did not change substantially. These operations were essentially those of a clearing house on a national scale, and were effected with as little credit disturbance as the settling of balances at a local clearing house.

The Lower Bank Clearings in New York City

A noticeable decline in bank clearings in New York City has developed in recent months, compared with 1919. In the following table are shown the debits to individual account at New York Clearing House banks as reported to the Federal Reserve Board, divided into periods which approximately cover the months of May, June, July and August of 1919 and 1920:

	1919	1920
May	$18,336,000,000	$18,682,000,000
June	20,184,000,000	18,133,000,000
July	24,929,000,000	21,231,000,000
August (5 weeks)	19,091,000,000	15,895,000,000

In part, this decline is owing to a much less active stock market, but a novel factor in the reduction arises from the perfected method of clearing stocks and paying for them put in operation by the New York Stock Exchange late in April. According to this plan, which applies to stocks admitted to clearing by the Stock Clearing Corporation representing 90 per cent. of the total transactions, only balances between brokers are settled, whereas formerly settlement was made in full. The following table shows that since May 1 the Stock Clearing Corporation has reduced the face value of checks drawn by over $1,000,000,000.

1920	Value of Shares Delivered	Amount of Checks in Settlement	Amount of Checks Obviated
May	$609,726,000	$235,768,500	$373,957,500
June	381,432,400	165,238,400	216,194,000
July	480,474,800	189,889,300	290,585,500
August	466,356,900	184,506,800	281,850,100
Totals	$1,937,990,100	$775,403,000	$1,162,587,100

Gold Movement

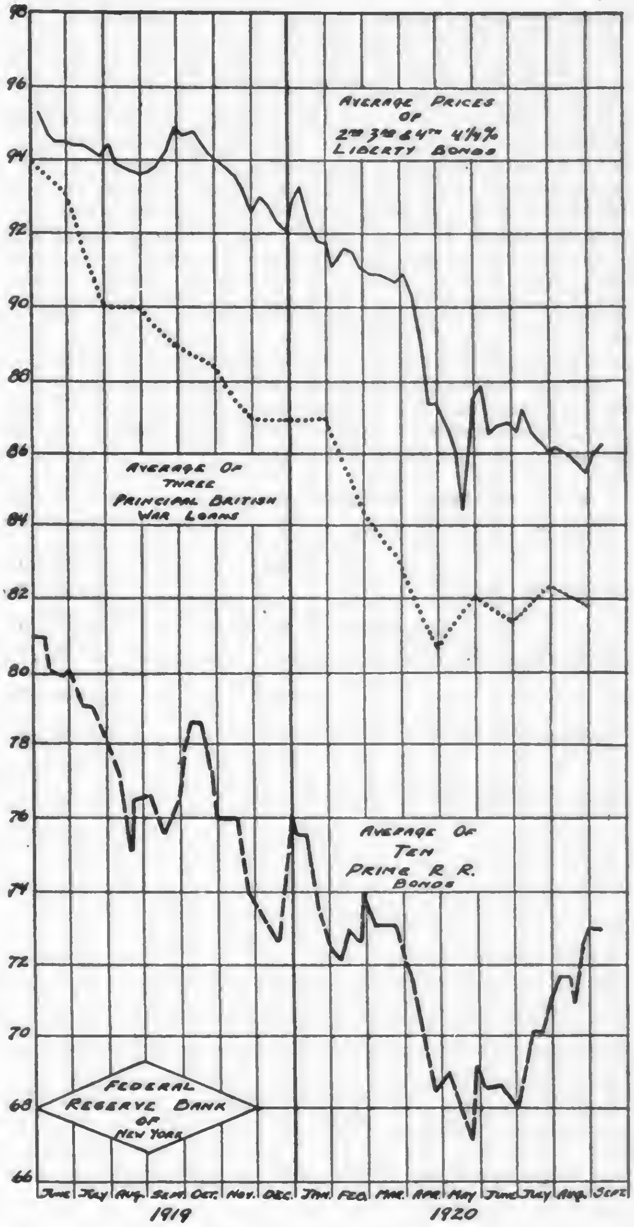
During August the movement of gold was against the United States, exports amounting to nearly $25,000,000 in comparison with imports of about $15,500,000. Of the imports about two-thirds came from England, while of the exports nearly three-fifths went to Japan. So far in September the reported gold arrivals at this port have been $14,000,000 from France, $6,300,000 purchased in the London market, $3,500,000 in addition from England, and $1,500,000 from Argentina. No important exports have been reported. As already announced,

Bank Deposits and Loans

(In Millions)

Date	71 Reporting Banks in New York City: Net Deposits	U. S. Securities and Loans Thereon (excluding U. S. Bonds to secure Circulation)	Total Loans and Investments (including Rediscounts)	818 Reporting Banks in all Districts: Net Deposits	U. S. Securities and Loans Thereon (excluding U. S. Bonds to secure Circulation)	Total Loans and Investments (including Rediscounts)
1920						
Sept. 17	5,170	793	5,738	......	.....	......
Sept. 10	4,868	725	5,628	14,172	1,839	16,923
Sept. 3	4,849	788	5,658	14,082	1,914	16,928
Aug. 27	4,880	787	5,652	14,110	1,923	16,909
Aug. 20	4,902	800	5,621	14,125	1,931	16,883
April 16	5,217	968	5,783	14,167	2,303	17,189 (high)
1919						
Oct. 10	5,397	1,512	6,010 (high)	13,699	3,231	15,944
Aug. 15	5,104	1,516	5,614	13,401	3,495	15,287

Between August 15, 1919 and September 10, 1920, the banks throughout tne country increased from 773 to 818.



Course of Market Prices for American and English War Bonds, and representative Railway Bonds, from June, 1919.

gold held for about a year by the Bank of England for the Federal Reserve banks, now amounting to $111,-458,000, will soon be shipped to this country. This will not in any way change the reserve position of these banks, as the fund is already counted in their gold reserves.

Government Securities

As in July, sales of Liberty bonds on the New York Stock Exchange during August showed a sharp falling off compared with the corresponding month a year ago. Transactions were $138,700,000, nearly a third less than August, 1919, while July sales of $175,000,000 were off one-seventh compared with July, 1919. These figures compare also with an average of $262,000,000 for the first six months of the year.

Price fluctuations continued moderate, but the recent slow settling was replaced by a firmer tendency. Since the middle of August, the various 4¼ per cent. issues have advanced a point to a point and a half, to approximately the levels of the last of July. A slight weakening appeared just prior to September 15 when income tax payments were due, but recoveries occurred on succeeding days.

The new issues of certificates of indebtedness dated September 15, bearing 5¾ per cent. for six months and 6 per cent. for one year, were largely oversubscribed, but all subscriptions were not accepted. Allotments amounted to $448,596,000, of which $241,604,000 was allotted in this district, 54 per cent. of the total. The success of these issues points to the fact that Treasury certificates of indebtedness have become a widely recognized medium of short-time investment, not only by financial institutions but by individuals, and the proportion held by the banks has grown materially less.

Bond Market

Contrasting with the hesitancy displayed by stock traders, the bond market has been more active than at any time this year and price averages show the sharpest rise since the passage of the railway bill in February. Buying of railroad issues mainly accounted for this movement, but there was also a moderate strengthening in other groups. Among the railroad bonds, many came into prominence which have long been inactive. Semi-speculative securities, in general, made the widest gains, but there was a steady investment absorption of first grade issues, and the new high interest-bearing group also held to the recent high levels. The continuous advance of several weeks stimulated profit taking towards the close of the period, and the speculative groups reacted slightly. Some renewal of foreign selling was also reported.

A compilation of bond averages shows that since August 1 ten high grade railroad bonds advanced 2 points, ten second grade railroad bonds advanced about 4 points, ten industrials maintained a fairly even average, and ten public utility issues strengthened after an early decline.

Foreign government issues recovered largely from the recent heaviness, and certain of them were conspicuously strong. French 8s sold above 102; Swiss 8s reacted on the announcement of the French loan terms but rallied to above 102; Anglo-French 5s reached par; while City of Paris 6s and United Kingdom 5½s, 1921, sold again near highest prices of the year. Mexican 4s and 5s were active and stronger, in the belief that some steps might be taken towards a resumption of interest payments.

Total sales of railroad and miscellaneous bonds during August were $62,000,000, compared with $44,800,000 during July, and the largest total for one month since December when sales were $121,000,000.

Government Debt

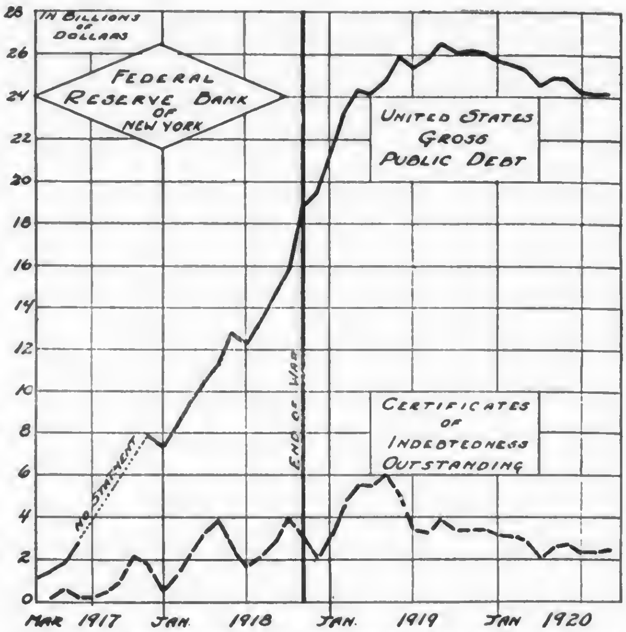
Certificates of indebtedness comprise the major part of the floating debt of the United States. On January 1, 1920, there were issued and outstanding $3,259,000,000. Since that time there have been numerous redemptions and new issues, and in some cases the Treasury has made purchases of certificates in advance of maturity. On June 14, 1920, on the day before a large issue matured, the aggregate of unmatured issues irrespective of any purchases made by the Treasury, amounted to $2,848,-000,000. The comparable figure on September 14 was $2,613,000,000, again on the eve of a large issue maturing, a reduction of $235,000,000. Below in summary form are given the intermediate steps of issue and redemption. The figures are based on published reports of original issues and maturities, without regard to purchases by the Treasury before maturity or exchanges of unmatured certificates for new issues of certificates.

Total Outstanding June 14, 1920......	$2,848,064,500
Redeemed June 15, 1920......................	728,130,000
Total..........	2,119,934,500
Issued June 15, 1920.........................	419,121,000
Total Outstanding June 16, 1920......	2,539,055,500
Redeemed July 1, 1920........................	200,669,500
Total..........	2,338,386,000
Redeemed July 15,1920.......................	83,903,000
	2,254,483,000
Issued July 15, 1920..........................	201,061,500
	2,455,544,500
Issued August 16, 1920.......................	157,654,500
Total Outstanding September 14, 1920.	2,613,199,000

The decline in the public debt of the United States during the last twelve months, as shown in the Treasury statements, is indicated on the accompanying chart, together with the changes in the volume of certificates outstanding. The peak was reached in August of 1919 when the gross debt totaled over $26,500,000,000. On August 31 of this year it had been reduced to $24,324,000,-000, a decline of about 8½ per cent.

The Bill Market

Demand for bills fell off considerably during the past thirty days and the market has been more quiet than in several months. This was particularly true of New York, and reflected apparently the movement of funds from this center to the interior. Demand from outside banks in diverse parts of the country was fairly well sustained. The supply of bills offered to the dealers also declined, but not to the same extent as did the demand. In consequence of this slower movement of bills, which prevailed especially in the shorter maturities, the dealers raised slightly both their buying and selling rates on 30 and 60-day bills. The new selling rates were 6 and 6⅛ per cent. for the best names. Prime 90-day bills ruled unchanged at 6¼ per cent. Seasonal offerings of cotton, grain and tobacco bills continued to preponderate. There was no change in the minimum buying rates of the Federal Reserve Bank, which ruled from 5¾ to 6 per cent. for endorsed bills.



The public debt of the United States reached its peak in August of last year and is now declining: as is also the volume of temporary financing.

Commercial Paper Market

Distribution of commercial paper continues fairly good, though almost entirely with country banks. Sales to New York banks and in other large commercial centers are reported negligible. The eastern section is still generally regarded as the most favorable market, but some dealers report a more encouraging outlook in the Middle West. Thus far, offerings have shown no appreciable fall expansion, and at least one important dealer reports demand for money lighter. Rates remained unchanged, principally at 8 per cent., with a small proportion of discounts at 8¼ per cent. The tone of the market, however, appeared slightly easier, which led to a few offerings below the prevailing level, but little business developed.

New Financing

Corporate financing during August, according to a local compilation, totaled $168,000,000, the smallest for one month in nearly a year and a half, and a decrease of $52,000,000 compared with August, 1919. Some seasonal reduction was normal, but the decline below the level of last year for the third successive month apparently reflects principally the high interest rates and the tendency of concerns to cut down programs of expansion. Financing since January 1, however, continues in excess of last year, a total of $2,209,000,000 against $1,774,000,000 in the corresponding month of 1919.

Bonds and notes continue to preponderate, with stock issues little more than 20 per cent. of the total. Yields on new offerings remain high, but the successful sale of $25,000,000 bonds of an important railroad at 7 per cent., and other transactions, indicated that there has been no further advance in the general level. Demand for municipal securities continued somewhat more active, and several fair sized issues were placed.

French Loan

A remarkable feature of the French $100,000,000 loan issued for the purpose of refunding a portion of the French Government's share of the Anglo-French loan due on October 15 next, was its wide distribution among small investors. Of the total, which was much over-subscribed, $69,000,000 was taken by persons who applied for $5,000 or less. The number of individual subscribers exceeded 39,000, which was believed to be a high record for a privately floated loan in this country. One of the large members of the underwriting syndicate announced that its average sale on the offering was $3,324, whereas in past years $25,000 would have been a more likely average. The bonds are of twenty-five year maturity, bear 8 per cent. interest, and were offered at par.

Terms of the sinking fund provide that the French Government pay annually, beginning December 15, 1920, to the sinking fund trustees not less than $4,400,000. These payments, made in quarterly instalments during the first five years, will be applied to the purchase of the bonds in the open market at prices up to and including 110 per cent. Thereafter, the payments will occur in semi-annual instalments and be applied to the redemption of bonds by lot at 110 per cent.

Stock Market

The stock market recovered somewhat from the heavy declines of the preceding period, but prices were erratic, and trading, particularly as concerned the industrial stocks, was largely of a professional character. Indications of falling commodity prices continued to affect certain groups adversely, but some stocks moved forward rather briskly when influences were at all favorable. On the whole, traders appeared to be in a cautious mood, and quick to take profits on moderate movements in either direction.

Railroad shares, through most of the period, enjoyed a steady and broad demand, and at times even displaced the industrial stocks in point of activity. An average of twenty-five railroad issues advanced to within a point of the highest level of the year, reached in March, a rise since the middle of August of about 6 points. Meantime, twenty-five industrial stocks advanced slightly more from the August extreme low point.

Total sales during August were 13,700,000 shares, a slight expansion over the previous month, but only slightly more than half the volume of August last year.

Stock Market Money Rates

With stock market requirements apparently reduced, call money has continued available for the most part at relatively moderate rates. Towards the close of August, the usual end-of-month financing, coupled with Government withdrawals of deposits from the banks and further calls from the interior, caused renewal rates to rise from 7 to 8 per cent., while new loans on several days reached 9 and 10 per cent. Thereafter, rates quickly eased again to 7 and 6 per cent. Stock Exchange time money in September showed a distinctly easier tone, which was reflected in a decline in quoted rates for four to six months loans to 8¼ and 8½ per cent. Actual transactions, however, involved only very moderate amounts. Lately it was reported that small 60 day loans on mixed collateral and 6-months loans on industrials were obtained at 8 per cent., the lowest rate in the last two months.

Foreign Exchange

The European exchanges have continued weak during the greater part of the period, practically all reaching new low levels for the present downward movement. Sterling declined 4.4 per cent. below its closing quotation of August 20, although still 8.1 per cent. above $3.18, the low point for the year. The French and Italian rates showed even greater losses than sterling. Lire were unfavorably affected by the labor disturbances in Italy during the month. Heavy speculative selling carried marks down abruptly, though they are still quoted 50 per cent. above the low point earlier in the year. The market for the far eastern exchanges was rather apathetic with transactions largely of a speculative character only. Both taels and rupees fluctuated somewhat in accordance with silver bullion prices. A slight recovery in rupees was also partly attributed to unconfirmed reports that the wheat export embargo in India had been lifted. Rates on Argentina continued to recede and this exchange now stands at a record depreciation.

Rates from August 21 to September 17 are given below:

	High	Low	Last	Percentage of Depreciation from Par
England	3.59½	3.44½	3.53¼	27.4
France	7.11½	6.43	7.05½	63.4
Italy	4.68	4.23	4.40½	77.2
Spain	15.10	14.40	14.76	23.5
Argentina	38.75	36.25	36.50	14.1
China (Hong Kong)	80.00	75.75	76.50	x
China (Shanghai)	116.00	107.00	107.00	x
Japan (Yokohama)	51.50	51.125	51.00	2.3*
Germany	2.09	1.52	1.52	93.6
Switzerland	16.58	16.15	16.28	15.6
Sweden (Stockholm)	20.40	20.08	20.40	23.9
Holland	33.375	30.625	31.0625	22.7
Belgium	7.57½	6.92	7.46	61.3

x—Silver exchange basis
*—Premium

Export Trade

Continued high level of imports and a rather sharp decline in the reported value of exports are shown by the foreign trade figures of the country for August. The reported total of imports decreased $18,000,000 below the July figures to $537,000,000, or $33,000,000 below the record total of June. But if allowance is made for the usual seasonal trend and the decline in prices, the relative volume of imports in August exceeded all previous months with the exception of July. Exports declined $67,000,000 to $584,000,000, the smallest in reported volume since

July of last year, and in relative volume the lowest since February.

Exporters report that demand in foreign markets is quiet. Retrenchment is generally the rule, due in varying degree to business and price uncertainties and money stringency. There is much complaint of the difficulty of arranging credits. Banks in this country are curtailing their purchases of drafts on many foreign countries, due in part to slow collections there; and tightening by banks abroad is making it increasingly difficult to finance business from the purchaser's side.

Wheat, coal and oil are the large exceptions to the general slackening. For the eleven weeks ended September 16, wheat and flour exports from the United States and Canada totaled 111,800,000 bushels, compared with 75,000,000 bushels in the same period last year. New buying for export was slower at times, but just after the close of the period again developed unusual strength. Some revival of export meat buying was also reported. Coal is still in active demand, and August shipments through the chief tidewater coal ports reached a new record of 2,295,000 tons. Requests for oil products are in excess of supplies.

Trade in textiles, drygoods and similar articles remains nearly at a standstill. Slower demand for cotton goods is reflected in declining exports of raw cotton to foreign mills; shipments during August totaled only 146,688 bales. compared with 479,058 bales, in August, 1919. Some inquiry was reported for certain classes of hides, but in general the export hide, leather and shoe markets were as dull as in the recent past. General merchandise requirements were also lighter.

Though shipments of steel products have been moving actively, new orders from most markets are very slow. Many attempts by European consumers to cancel orders are reported. The iron market has been similarly affected. Machinery, machine tools and hardware have been in less demand, but the falling off does not appear to have been so marked as in semi-finished materials.

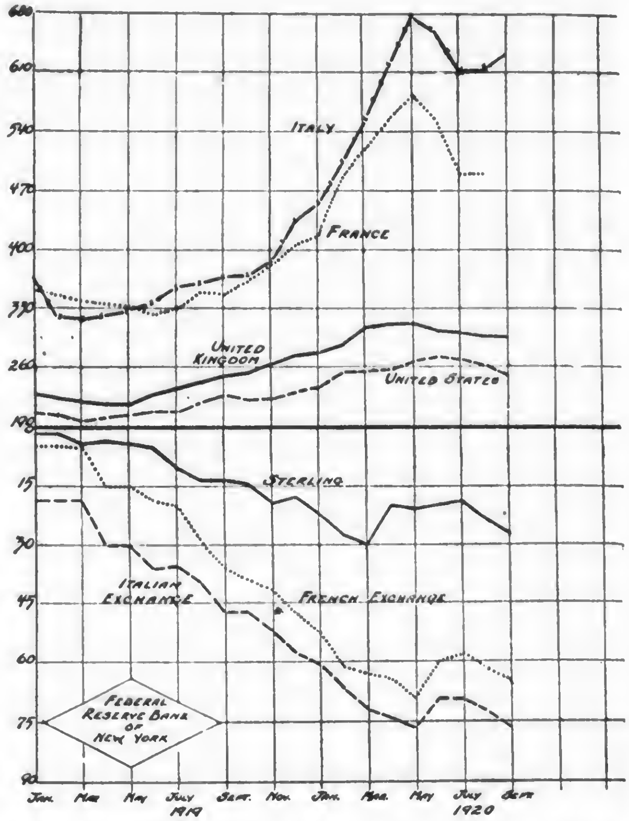
Foreign buying of copper has not strengthened, and the market continues in a waiting attitude. Export demand for automobiles and accessories, which until lately has been reported strong, is now slower.

Decline in cargo offerings at the ports of Europe and the Far East has been reflected in unusual dulness in the ocean freights market. There is little demand for space for China and Japan, though business is still fairly active for the Dutch East Indies and India. European rates, outside of Great Britain, are reported quiet, with a tendency to soften, though so far there has been no important break. Business with South America, particularly Brazil, is still in good volume, though it is reported that offerings for Argentina are smaller.

During the final week of the period, the freights market strengthened somewhat on steady offerings of grain and coal, and there was an increase in the general cargo movement which forwarders attributed largely to improvement in the railway traffic conditions.

Depreciated Exchanges and Foreign Trade

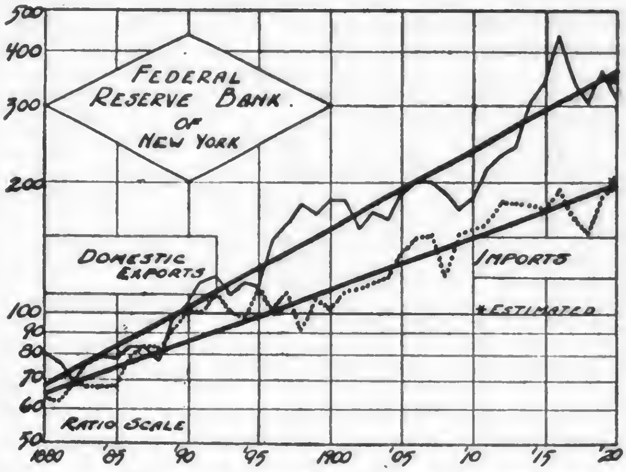
Our favorable balance of trade continuing though the foreign exchanges have long been far below what used to be known as parity, presents an anomaly which has



Movement of Foreign Exchange on New York (expressed in terms of depreciation from parity) and of Commodity Prices in four Principal Countries. (Note: Prices above heavy line. Exchanges below heavy line).

puzzled many observers of our commercial markets, and has led to conjectures that our foreign trade was likely to suffer an abrupt turn-about. In ordinary times, with free international movements of gold and normal conditions of trade, a fall in the exchanges registers a closing of the door through which exports flow out and the opening of the door through which imports flow in.

But the present times are not ordinary, nor have conditions in trade been normal. The primary and most important variation from normal conditions is that the former European belligerents are off the gold basis. The old parities of exchange were stated in terms of gold—or with respect to countries which were not entirely on the gold basis, upon a fairly fixed and standardized basis of currency. With the inflation of the foreign currencies the old parities do not apply, and rates are at a discount which approximates the discount of those currencies from gold. We have in fact a new parity not fixed but fluctuating in much the same way as the value of the foreign currencies fluctuate in relation with ours. This principle was cited as long ago as 1861 in Goschen's Theory of the Foreign Exchanges, written after the close of the Crimean War. He speaks of this new parity as a "new standard":



The Relative Volume of Imports and Exports (changes in dollar values allowed for) from 1880. The heavy straight lines indicate the 40-year Trend.

"We have thus discovered an influence which apparently affects the fluctuations in the Foreign Exchanges far more powerfully than any previously discussed;—interest of money, a balance of debts over claims, panic, distance, and so forth, practically cause the exchanges to vary within a few per cents.; a variation of ten per cent., owing to all these circumstances combined, is considered something extraordinary, and only occurs under rare combinations. But as soon as the element of currency is introduced, we have had at once an instance before us in the Vienna exchange of a variation of fifty per cent. So in the Russian exchanges, owing to the enormous amount of paper money afloat, which is practically inconvertible, the most violent fluctuations are constantly occurring."

This new parity, fluctuating in accordance with the buying power of the currencies of the nations in relation to our own, bears a close resemblance to the rise or fall of the price indices of foreign nations in relation to our own. The intimate bearing of commodity prices upon foreign exchange rates is seen on the chart on page 6, in which the movement of commodity prices is compared with that of foreign exchange rates from January of 1919 up to the most recent dates for which figures are available. The commodity price indices have been reduced to a common base, that of 1913. It will be seen that when the price increases in the United States are offset against the price increases in other countries, the movement of exchange is very closely the same.

The operation of trade under this new parity is simple and depends in the main upon the common rules of commerce. Whether a British merchant, for instance, will continue to buy in the New York market when sterling has declined 30 per cent. from its old parity depends mainly upon his chances of profit—that is, whether he can pay for New York goods in sterling converted into dollars and secure in his own market a price in sterling above that paid, plus the costs of transportation and handling.

An examination of the progress of the foreign trade of the United States since 1880 suggests that while exports and imports varied greatly from normal during the war period, nevertheless they are now reverting to the normal line of increase carried through the forty years. The accompanying chart, which is drawn in units of one hundred million dollars and from which price distortion has been eliminated, shows the course taken by our foreign trade since 1880, and indicates that while exports increased in great volume during the war and imports declined they are now nearly at their normal lines, though slightly below them.

Foreign Bank Rates

The discount rate of the Bank of Sweden was raised to 7½ per cent. on September 17. The previous change was the advance to 7 per cent. on March 18 of this year. No other changes in official bank rates have been reported.

The private rate in London has recently advanced to 6¾ @ 6 13/16 per cent. for sixty and ninety day bills. Call money in London has been 5¼ during the greater part of the period. The present bank rates are as follows:

	Rate	Changed
Bank of England	7	April 15, 1920
Bank of France	6	April 8, 1920
Bank of Italy	6	May 13, 1920
Bank of Japan	8	November 18, 1919
Netherlands Bank	4½	July 1, 1915
National Bank of Belgium	5½	April 29, 1920
Bank of Spain	5	November 20, 1919
Bank of Sweden	7½	September 17, 1920
Bank of Norway	7	June 25, 1920
Swiss National Bank	5	August 22, 1919
German Reichsbank	5	December 23, 1914
Austro-Hungarian Bank	5	April 12, 1915

Recommendations at Brussels Conference

The International Financial Congress, which is now in session at Brussels, has received a joint memorandum signed by five of the leading economists of Europe, in which certain recommendations are made looking toward economic reconstruction. The following are the summary paragraphs dealing with inflation:

1. It is essential that the inflation of credit and currency should be stopped everywhere at the earliest possible moment.
2. To this end, Government spending must be cut down, the conduct of Government enterprise at less than cost and the payment of subsidies on particular commodities and services must as far as possible be abolished and military and naval expenditure stringently restricted.
3. The equilibrium of State budgets must be restored, loans not being employed to meet ordinary current requirements.
4. Artificially low bank rates out of conformity with the real scarcity of capital, and made possible only by the creation of new currency, must be avoided.
5. Floating debts should, as soon as practicable, be funded.

World Commodity Prices

The downward movement in prices throughout the world continued during the past thirty days but it was not precipitate and proceeded in an orderly manner. With the possible exception of Japan, price reductions have not been large and the gradual gain of supply upon demand is slowly effecting a readjustment to the lower levels.

Both the Statist and the Economist indices show further small declines in British prices, and in England as in the United States, the chief declines have appeared in foodstuffs and textiles while minerals have usually shown advances. The French index shows only a very slight decline in July although it now stands 15.8 per cent. below the peak. Italian prices advanced during August but the index is still nearly 7 per cent. below the peak reached in April. The Canadian index is now 7.2 per cent. below the high point of May, a smaller decrease than that shown by the index of the United States Bureau of Labor Statistics for the same period.

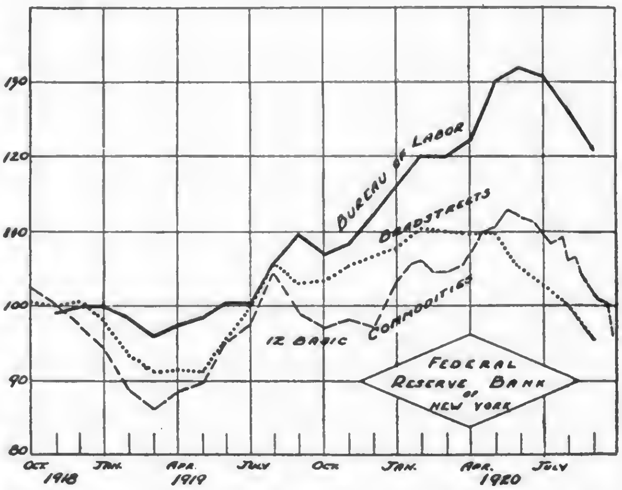
The table below gives the latest available figures of the various index numbers of wholesale prices, together with the preceding figures and percentage changes.

Domestic Prices

Price declines have gone further than a month ago, both in degree and in the number of commodities affected, and competition for the buyer's patronage is becoming well established in many lines of trade. The United States Bureau of Labor index of wholesale commodity prices declined 4.6 per cent. in August and now stands approximately 9 per cent. below the high point reached in May. Other price indices, including this bank's, continue their gradual downward movement.

Commodities which show the greatest declines are principally foodstuffs and textiles. Fuels and metals continue to advance. The following table gives the percentage decline from peak prices of a number of important commodities:

Commodity	Per cent. decline from peak	Peak Month
Sugar	31.8	June
Wheat	18.8	May
Corn	33.4	May
Oats	50.0	May
Potatoes	76.7	April
Cotton	27.4	July
Wool	46.0	Jan.
Serge	11.1	July
Silk	72.0	Jan.
Hides	31.7	Jan.
Leather	17.8	Feb.
Rubber	42.4	Jan.



Movement of three Indices of Wholesale Commodity Prices from from the Armistice (November, 1918=100.)

Iron and Metals

Larger deliveries of iron and steel, delay in railroad buying pending the completion of financing plans and a decline in structural orders have relieved the heavy pressure for finished steel. In August, for the first time

Wholesale Price Indices

Country	Latest Available	Preceding	Per Cent. Change	Highest	Per Cent. Decline from High Point
United States					
Bureau of Labor	250 (Aug. average)	262 (July average)	−4.6	272 (May average)	8.1
This Bank's index (12 basic commodities)	96.39 (Sept. 27)	99.2 (Sept. 20)	−2.8	112.9 (May 17)	14.6
Dun's	205.4 (Sept. 1)	208.7 (Aug. 1)	−1.6	217.81 (May 1)	5.7
Bradstreet's	195.1 (Sept. 1)	204.4 (Aug. 1)	−4.5	226.46 (Feb. 1)	13.9
British Economist	287.5 (Aug. 31)	292.46 (July 31)	−1.7	310.14 (Mar. 31)	7.3
British Statist	298.2 (Aug. 31)	299.3 (July 31)	−.4	313 (April)	4.7
French	492 (July)	493 (June)	−.2	584 (April)	15.8
Italian	632 (Aug.)	613 (July)	+3.1	679 (April)	6.9
Japanese	239 (July)	248 (June)	−3.6	321 (March)	25.5
Canadian	244 (Aug.)	256 (July)	−4.9	263 (May)	7.2
Swedish	364 (July)	366 (June)	−.5	366 (June)	.5
Australian	234 (July)	233 (June)	+.4	234 (July)	....
Calcutta	209 (Aug.)	209 (July)	....	218 (Jan.)	4.1

All indices have been converted to a 1913 base with the exception of this bank's, which is based on prices at the Armistice.

in many months, there was a decrease of about 300,000 tons in the unfilled orders of the United States Steel Corporation.

According to the Bridge Builders and Structural Society, there was a decrease in the orders for structural steel from 91,800 tons in July to 72,200 tons in August, or from 51 per cent. to 40 per cent. of shop capacity. The figure for August was the smallest since April, 1919.

Despite the lack of demand for finished steel, the production of pig iron and steel ingots increased during August. Pig iron production totaled 3,147,000 and steel ingot production 3,000,432 gross tons, this high level being due to improved deliveries of fuel and takings of finished iron and steel which enabled plants to fill orders in hand.

Pig iron prices advanced during the month. Finished steel held firm but there was some easing in rails and forging billets.

There has been a general softening of the non-ferrous metal markets during the month. The decline in the prices of lead and zinc was partly influenced by importations from England. Copper, which showed some activity during the month, has again relapsed into quietness.

Building

The bulk of new building going on in September in New York City, according to statements received from three of the largest builders here, is on contracts executed last spring or late in the winter. Some projects, contemplated from the time the war started, are now being put into contract form, but they are comparatively limited. It appears that building at prevailing prices has reached or already passed its peak. Brick delivered at docks in New York City very recently declined from $25 to $17 a thousand, but are still about three times pre-war cost. There has also been a slight decline in structural steel, which is attributable to a fall not in prices at the mills but in the prices charged by fabricators and erectors.

As in previous months the shortage of housing is the most critical phase of the whole building situation. On the island of Manhattan there has been continued wrecking of houses to be supplanted by business buildings, owing in part to the reluctance of tenants to submit to heavy rent increases. The legislature of New York State passed laws last spring intended for the protection of tenants, and a special session has aimed to make that protection more effective, and at the same time to devise ways of stimulating the construction of all sorts of buildings.

According to the figures compiled by the F. W. Dodge Co. for August, 1,010 contracts for buildings of all classes were awarded in New York State and Northern New Jersey, the valuation of which was $38,000,000. Comparable figures for July were 885 contracts amounting to $36,000,000. The number of contracts awarded for residence buildings in this district increased from 423 in July to 496 in August, and their value from $8,319,400 to $12,788,300.

Cotton and Wool

A continuation of the unstable conditions in dry goods markets, dubious labor conditions in Europe and the sharp unsettlement of foreign exchanges resulted in further declines during the month of about $10 a bale in raw cotton futures. A similar decline in spot cotton was due to the same causes and to the more rapid movement of the new crop; within the two months from July 23 to September 20 it has fallen from 43.5 to 31 cents per pound. September, on becoming the spot month, and October in sympathy with it have advanced to reduce the margin existing between near and far deliveries.

Cotton exports are still at a very low level and domestic consumption declined from 525,405 bales in July to 483,193 in August. The Government report as of August 25 indicated a yield of approximately 12,783,000 bales or 1,450,000 bales more than last year, and the average of a number of private reports as of the end of August indicated a yield of slightly more than 13,000,000 bales.

The announcement of the American Woolen Company that its mills were again resuming operations gave a more optimistic tone to the raw wool market, but prices have made no marked advance. At the recent East Indian wool auction in Liverpool there was a slight advance over the opening quotations, but at the auction of colonial wool which immediately followed it prices were again weak.

Textiles

There has been a substantial advance toward readjustment on the part of the textile industries to a lower level of prices. The course taken thus far is entirely typical of such a readjustment, both in its beginning and progress. Heavy production at high and rising prices was followed by a decline in demand at those prices, which resulted in turn in the shutting down of mills and a sharp fall in the prices of raw materials. Very recently certain of the mills have reopened and business is reviving at the new lower price level and on an immediate delivery basis.

In the silk and woolen industries the successive phases in this readjustment have been most marked. Some of the largest jobbers revalued their inventories at July 1 prices, took their losses, and went ahead on the new basis. Forward orders have been few, but it is reported that demand for goods for immediate delivery has much increased, and that a profitable business is being done. Silk goods prices are about half what they were in midwinter, and raw silks, which latterly have shown a slightly steadier tendency, are still nearly 70 per cent. below the maximum reached in the winter. Cotton goods are from 35 to 40 per cent. off, and woolen goods about 20 per cent.

Manufacturing of woolen and silk has been resumed. Many of the larger woolen mills resumed partial operation in September. Estimates of silk mill operation range from 40 to 60 per cent. of normal. In the Paterson district over half of the mills are running, although as yet only about 40 per cent. of the looms are in use. An indication of the revival of silk manufacture is given by the consumption figures gathered by the Silk Association of America. According to these estimates, while July consumption of raw silk was only about one-third of the February total, before the fall in prices, the August total was nearly half as much as in February.

Retail Trade

The dulness in retail trade which developed in July continued in August and early September. Reports from department stores throughout the district indicate that this dulness was more marked in New York City than in other cities within the district, owing in part to periods of wet and particularly warm and humid weather in New York City during August.

The recent cooler weather slightly stimulated retail sales of men's and women's clothing, but buyers are still carefully studying prices and are purchasing conservatively. Retailers have resorted to special price reductions in order to accelerate buying.

Prices of pianos and musical instruments are firm, but business is not in large volume. The demand for jewelry, passenger automobiles and accessories and similar articles is much below the level of this time last year. Carpets, rugs, furniture and housefurnishings are in fair demand, but considerably below the normal for this season of the year.

Department stores and other retailers are still buying only to fill their immediate needs and their most conservative future requirements. This attitude has been induced in part by the numerous recessions in wholesale prices.

The following schedule compiled from figures furnished us by department stores is self-explanatory:

Commercial Failures

Commercial failures for the country as a whole in August were 673 and liabilities $28,372,895, according to the Dun reports. This is a decrease of seven from the number in July but an increase of $6,466,483 over July liabilities. As was the case last month, the size and number of the failures of manufacturing concerns were particularly large.

The following figures, taken from the Dun reports, are for the Second Federal Reserve District:

	Number of Failures		Liabilities	
	1920	1919	1920	1919
January.	103	134	$ 1,212,644	$ 3,258,200
February	75	102	1,062,322	2,686,546
March..	139	102	6,213,228	4,033,008
April....	117	107	2,865,153	4,365,253
May....	133	93	2,413,591	3,194,187
June....	164	104	16,218,280	4,040,301
July....	172	79	11,438,511	1,836,523
August..	179	68	15,009,838	1,615,398
	1,082	789	$56,433,517	$25,029,416

Business of Department Stores

	New York City and Brooklyn	Outside New York	Second District
Percentage of increase in net sales during August, 1920, over net sales during the same month last year	13.41	29.86	17.52
Percentage of increase in net sales from July 1, 1920 to August 31, 1920, over net sales during same period last year	16.41	30.43	19.91
Percentage of increase of stocks at close of August, 1920, over stocks at close of same month last year	32.35	29.54	31.65
Percentage of increase of stocks at close of August, 1920, over stocks at close of July, 1920..	8.09	*1.29	5.74
Percentage of average stocks at close of each month from July 1, to average monthly net sales during same period	489.25	505.62	494.54
Percentage of outstanding orders at close of August, 1920, to total purchases during the calendar year 1919	16.80	11.10	15.06

*Decrease

Collections

Wholesale and retail collections in this district are reported generally slow to fair, but on the whole are better than a month ago. Dressmakers, jobbers of woolen goods, milliners, manufacturers of tires and automobile accessories, dealers in furniture and carpets and both wholesale and retail dealers in shoes find collections slow. A slight improvement has been noted in collections in the fur manufacturing and the cloak and suit industries. Dealers in pianos report collections satisfactory and collections are good in the tobacco manufacturing industry and with makers of confectionery.

Collections in the silk trade are extremely poor and have shown little change for the better during the past month. New buying of silks is now practically on a cash basis.

Employment

Although there were marked declines in employment in several branches of the metal manufacturing industries and further declines in the textile and clothing industries from July to August, the average decrease in the number of workers reported to the New York State Industrial Commission by manufacturers of all classes was only 2 per cent.

Falling off in business was given as the reason for sharp reductions in the working forces of makers of passenger automobiles and automobile parts. One company operated on a five-day schedule and another reduced the number of its employees 50 per cent.

With the exception of the women's clothing industry, there was a considerable further reduction of employment in the textile and clothing industries, where the number of operatives is still far below last year's. The inactivity was most marked in the men's furnishings division and the total number of persons employed in that division declined 8 per cent. from July to August.

A strike affecting several thousand employees of the Brooklyn Rapid Transit Company caused much trouble to those in the habit of using its lines and resulted in some business disorganization. Many of the strikers have either been replaced or have gone back to work and the company says operations are now between 80 and 90 per cent. of normal.

The average weekly earnings of factory workers in New York State was $28.71 in August, an advance of 22 cents over July and a return to about the level of June, according to figures compiled by the New York State Industrial Commission. Higher wages to railway shopmen accounted for the increase.

Efficiency of Labor

A change for the better appears to have taken place in the efficiency of labor, as shown by answers to an inquiry made by this bank from 31 of the largest corporations in the country. In all cases except 9 improvement is reported. None of the concerns reported any decrease in efficiency; 5 reported that there was no change one way or the other and 4 were unable to draw conclusions from any data at hand. In some cases where comparisons are made with pre-war standards the efficiency is said to be lower, but in three instances individual efficiency is said to be higher than ever before.

In certain industries where a great number of operations go to make up a single finished product, and particularly when the finished product of a corporation is widely diversified, it is difficult to secure an exact statement in figures of the percentage of increase in efficiency. But it is felt that sufficient figures have been received to confirm the opinions expressed in the other answers. In a number of industries improved methods and more highly developed labor-saving machinery have tended to increase the individual efficiency of workers without necessarily implying increased willingness to work or increased individual performance. In fact figures rarely convey without explanation an intelligible idea of any change in labor efficiency. At one plant of a large chemical corporation, for instance, the cost of common labor per ton decreased from 95 cents an hour in January to 45 cents an hour in July. At another plant of the same corporation the corresponding figures rose in about the same proportion, the explanation being that at the latter plant re-handling was necessary because of difficulty in securing railroad cars at that time.

General expressions reflect more faithfully the change in labor efficiency. A plant of one of the large steel corporations reports that its product has increased 6 per cent., with substantially the same payroll. Two clothing factories at Rochester report that individual efficiency has increased 7 or 8 per cent., which nearly offsets a decrease in the working week from 48 to 44 hours—a result ascribed to the installation of scientific management. Other large concerns report variously that there has been an increase in efficiency varying from 10 to 17 per cent. over a year ago.

This change is attributed to various causes. Among them is an increase in the number of men looking for work over previous months this year. In a number of industries the turnover among the employees has decidedly lessened. One plant reports a decrease of 40 per cent., others 17 to 10 per cent., with the inference that men are tending to remain at their work long enough to become accustomed to it. A majority of the answers indicated an improved morale on the part of the workers.

Immigration

There was again in August an increase in the number of immigrants entering the United States through the port of New York, and in September the receiving station at Ellis Island was taxed at times beyond its capacity. But these conditions are not so much indicative of a heavy growth in the sum total of our immigrant population, as they are of special circumstances now prevailing. In August 37,000 emigrants left this port, as against 58,000 coming in, showing that the number of foreigners returning to their homes is still at high tide. The newcomers still include a large proportion of women and children, and many are refugees from Poland. The latter often arrive without sufficient funds to enable them to enter the country, and are held at Ellis Island pending the receipt of money from relatives and friends. Their detention seriously restricts the space available for the examination of newly arrived immigrants.

Approximate figures of arrivals and departures at this port from January 1 to August 31, 1920, are as follows:

	Arrivals	Departures
January	25,051	24,529
February	22,086	24,379
March	29,098	18,714
April	36,958	26,169
May	40,048	21,162
June	49,715	37,584
July	56,102	32,935
August	57,874	36,932
Total	316,932	222,404

Figures now available for the country as a whole for the six months ended December 31, 1919, show that there were 162,883 immigrants and 166,212 emigrants during the period. About 67,757 of the immigrants came through New York, 46,545 over the Canadian border and 22,080 over the Mexican border. By far the greater number of the emigrants, 138,828, embarked at New York.

Of the immigrants who arrived during this period 38,093 gave New York as their future residence; 16,977, Texas; 15,299, Massachusetts; 14,368, California; and 10,799, Michigan. Only 20,375 of the immigrants were classed as unskilled laborers, while 109,208 of the emigrants were so classed.

The following table shows the number of immigrants and emigrants by principal countries for the six months ended December 31, 1919:

	Immigrants	Emigrants
British North America	45,843	4,404
Italy, including Sicily and Sardinia	28,837	67,371
Mexico	22,857	4,628
British Isles	18,606	9,521
Kingdom of the Serbs, Croats and Slovenes	256	18,032
Greece	1,530	13,177
Roumania	220	12,264
Other Nations	44,734	36,815
Total	162,883	166,212

Crop Conditions

The condition of most crops of this district improved in August although unusual rains seriously delayed farm work and caused some loss by rot in potatoes, peaches and tomatoes. The fruit yields, particularly apples, pears, grapes and peaches are exceptionally high and the marketing of these has gone forward rapidly.

On September 1 the condition of corn, oats, barley, buckwheat, beans and tobacco was in each case from 6 to 9 per cent. above the average for this time of year. The weather of the past month has been particularly favorable for the maturing of corn causing a sharp increase in the estimates of the corn yield in this district.

The highest yield per acre of potatoes in twenty years is expected this year. By reason of a sharp reduction in acreage in parts of New York State, however, the increase in the total crop will hardly be proportionate to the estimated 22 per cent. increase over the normal yield per acre.

Although delayed somewhat by rains the threshing of wheat and oats has proceeded fairly satisfactorily throughout the district and preparation of the ground is now well under way for winter grain planting in most of the district.

Railroads and Transportation

The railroads handled during August the greatest volume of traffic ever carried in a single month, according to estimates now available. In both June and July they had established records for the tonnage moved in a single month but the increase in traffic in August considerably exceeded the normal seasonal increase over July and the total railway tonnage handled reached a point 11 per cent. greater than the traffic of June, 1917, the previous record month before this year.

During the first two weeks of September reports from representative roads show a further increase of about 5 per cent. in the handling of general freight although the normal seasonal increase over August is only about 2 per cent. But this compilation does not include the effect of the present strike in the anthracite coal fields. This will mean reduced coal traffic on the anthracite carrying roads with some consequent relative reduction in the total of all tonnage handled in September.

One large carrier of anthracite coal in this district, which has been showing steady month to month increases in the volume of coal loaded, reported a decrease of 63 per cent. in the first fifteen days of September from the coal loadings in the corresponding period of last year. Yet during August this road carried a volume of anthracite coal nearly 23 per cent. greater than during August, 1919. The bituminous carriers, however, continue to show increases; as an instance, one leading carrier in this district shows an increase of 8.7 per cent. over July and approximately the same gain over August of last year.

Gradual modification of the various embargoes has permitted a much better flow of cars into the terminals and switching points. Efforts of the railroads generally to increase the average daily car movement have met with great success and many roads have bettered even their records of September, October, and November, 1918, when the war movement reached its height. There has incidentally been a further gain in efficiency of the workers, particularly of the men replacing the trained workers who went on strike last May. In one or two cases, however, the roads still report some interference from striking employees.