Report on Business Conditions

Second Federal Reserve District

From the Federal Reserve Agent at New York
to the Federal Reserve Board

New York, November 20, 1919

Money and Banking The conditions referred to in the monthly report for October led the Federal Reserve Bank of New York on November 3 to advance its discount rates, and in announcing the advance, to issue the following statement:

> The reason for the advance in rates announced to-day by the Federal Reserve Bank of New York is the evidence that some part of the great volume of credit, resulting from both Government and private borrowing, which war finance required, as it is released from time to time from Government needs, is being diverted to speculative employment rather than to reduction of bank loans. As the total volume of the Government's loans is now in course of reduction corresponding reductions in bank loans and deposits should be made in order to insure an orderly return to normal credit conditions.

The increase in rates, though only fractional, was the first step taken by the Federal Reserve Bank towards assuming its normal relation to the volume of credit. During the war and as long as the Government continued to borrow on an increasing scale, a constantly increasing expansion of credit was necessary and the Federal Reserve Bank had not only to provide the basis for such expansion but to encourage it, and its rate policy was necessary subordinated to the rates carried by the Government bonds and certificates. But when the tide turned and the Government's borrowing began to decrease, credit contraction became not only possible but necessary and it was the duty of the Federal Reserve Bank, hitherto the agency of expansion to take the lead in encouraging the gradual contraction of credit.

The statement expressed the views of the bank as to the desirable policy to be pursued by the member banks as their investments in Government obligations, or their loans upon them, gradually are reduced. During the war the Federal Reserve Bank as fiscal agent of the Government had to encourage a programme of "borrow and buy," among banks in order that they might buy certificates of indebtedness far in excess of their available funds, and among individuals that they might buy bonds far in excess of their current savings. The result was an immense increase in the loan accounts of the member banks, and a proportionately great increase in their rediscounts with the Federal Reserve Bank. But with bond buyers gradually reducing their borrowings at the banks, and with a steadily decreasing volume of certificates to be carried by the banks themselves, the appropriate course would seem to be for the banks to apply the credit thus released to reducing their rediscounts with the Federal Reserve Bank. By such a process, that portion of the expansion which the carrying of Government obligations imposed upon the banks would be gradually but automatically retired and extinguished.

The issuance by the Federal Reserve Bank of the statement already quoted led to a general discussion of the policies therein advocated as well as of the normal purpose of the recourse to the Federal Reserve Bank by member banks, which in the general rediscounting and expansion of the past three years above referred to, had naturally become somewhat obscured and overlooked. Opinions were quite generally expressed that gradual contraction is now desirable, that it should proceed at least as fast as Government obligations in the banks are reduced, and that in normal times the rediscounting privilege should be exercised to meet emergency conditions or the sudden or seasonal demands of a bank's own customers, but not for the purpose of supplying funds, at a profit over the discount rate, to the general credit market, whether in the form of commercial paper or of loans secured by stocks and bonds or commodities.

Briefly reviewed, the conditions which led to the advance in discount rates and to the issuance of an explanatory statement on November 3 were the following: The total Government debt decreased

$400,000,000 during September, and from September 5 to October 31 the Government obligations carried by the 112 reporting banks in this district decreased $103,000,000. But the funds thus released were not used to decrease borrowings at the Federal Reserve Bank: on the contrary, during the same period, the loans and investments of the 112 banks increased $237,000,000, of which $203,000,000 was in loans secured by stocks and bonds, and the loans and investments of the Federal Reserve Bank increased $129,700,000 while its reserve percentage decreased from 44.5 per cent. to 41.5 per cent. in spite of its disposal to other Federal reserve banks of bankers acceptances aggregating $68,000,000.

During the two weeks period for which reports have been received since the increase in rates, the volume of Government obligations carried in one form or another by the 112 reporting banks in this district has continued gradually but steadily to decrease, their aggregate loans and investments have decreased $215,300,000 and their loans on stocks and bonds have decreased $101,600,000. Between November 1 and 22 the loans and investments of the Federal Reserve Bank have decreased $36,700,000 and its reserve percentage has risen from 41.5 per cent. to 45.0 per cent.

No accurate estimate can be given of the portion of this decrease in loans which represents actual decrease in credit demand, because the high rates for call money prevailing throughout the month doubtless have led corporations and others to withdraw surplus money from banks to lend on call and have added still further to the already immense volume of funds from interior banks which are employed here; but the lower prices now prevailing in security and in some of the commodity markets would seem to indicate a somewhat reduced absorption of funds. The reserve position of the Federal Reserve System as a whole, however, did not improve with that of the New York bank, but, on the contrary, declined from 47.7 per cent. to 46.9 per cent.

The money market in October frequently gave signs of strain, owing in part to the speculation which was proceeding in securities, real estate and many commodities. The congestion of railroad and overseas freight, due to strikes, added largely to the pressure, and the payment of $135,000,000 of British notes and $36,000,000 of the French Cities loan on November 1 and the placing of the new British loan of $250,000,000, though in part a refunding operation, involved a heavy readjustment of balances.

Call money followed closely the various movements described above. On over half of the days in October on which money rates were quoted the renewal rate was above 6 per cent. On every day, in November, thus far, the renewal rate has been above 6 per cent. and on November 13 it rose to 16 per cent. On November 12, the day on which heavy declines took place on the stock market call money touched 30 per cent., which had not been reached before since 1907.

The market for commercial paper has been dull, with rates latterly on a 5½ to 5¾ per cent. basis, in sympathy with higher call rates. Occasional sales toward the close of the period are reported at 6 per cent. Dealers continue to find their best market among the interior banks, particularly institutions in the smaller cities. Rates on bankers' acceptances on the outside market advanced about ¼ of 1 per cent. in the second week of November, and have continued firm at or above new levels ranging between 4¼ and 4¾ according to maturities.

Time money has been scarce and the volume of trading small. Rates for the shorter maturities ranged between 6 and 7 per cent., while on longer maturities for a few days they touched 8 per cent.

Bank clearings have been extraordinarily heavy, reflecting the great activity on the stock market. The following table gives the totals of each week of the period:

Week ended	New York City	Other (6 cities)
October 22	$5,712,080,000	$153,050,000
October 29	5,713,194,000	134,182,000
November 5	5,437,575,000	134,227,000
November 12	6,313,998,000	146,160,000
November 19	6,028,439,000	146,251,000

Stock Market

Developments of the month ended November 20 on the stock market were interlocked with the movements on the money market. During October the rates averaged well above 6 per cent., but the transient decline in money which occurred soon after the middle of the month encouraged speculation and prices particularly of certain industrial shares rose rapidly. Normal liquidation which might have been expected from profit-taking did not materialize because many holders of stock figured that most of the profits accrued would have passed from them by way of income taxes. The limitation thus placed on the available supply of stocks accelerated the rise. The impetus of this speculative activity carried through to November 3, despite a period of high money rates which began the last week in October. The record of daily sales several times approached and in one case exceeded two million shares.

Following the rate increase of the Federal Reserve Bank call money renewed progressively at ten, twelve, fourteen, and sixteen per cent., and on November 12, after a week of hesitation prices broke violently. Sales on that day were more than 2,500,000 shares. Industrial stocks as a group closed 12½ points and railroad stocks 5 points below the highest of the year. Certain industrials which had been the leaders on the rising market closed from 51 to 126 points below the year's high record. Subsequently prices recovered somewhat, and in the final week the volume of transactions fell off materially.

Bond Market and New Financing

High money and the demand for credit depressed the bond market some weeks before their effect on stocks was apparent. Even in the third week of October there was a noticeable falling off in the public demand for bonds, both on the stock exchange and in the bond houses; and during the last week of the month slow liquidation developed.

Quotations seem to indicate that most investors in selecting the bonds to be retained have been more solicitous for high yields than for seasoned securities; for as a general rule the groups showing the lowest net yields after taxes have been the most heavily sold. High grade railroad bonds during the past month went off about 2⅜ points, while industrials which yield a good deal more declined only half a point, and public utility bonds yielding more than railroad bonds also declined less.

Liberty bonds, from October 20 to November 20 fell off ⅓ to 1¼ points, the result of material liquidation. A large amount was reported sold for the purpose of providing additional margins on declining stocks thinly held; while the generally higher rates at which loans to carry these bonds were renewed by the banks doubtless had its effect. The tax-free issues went down only slightly, whereas the others suffered considerably.

During October domestic corporations issued new securities amounting to about $390,000,000 which exceeded the previous high record reached in September by $10,000,000, and $136,000,000 above the average monthly output this year. A considerable proportion of this financing was in preferred industrial stocks of corporations not hitherto known in this market, and in many cases represents the efforts of the smaller industrial concerns to enter upon a career of expansion. In addition to this great total the market was called upon to absorb $115,000,000, in the net amount, of United Kingdom 5½'s offered on a 6 to 6¼ per cent. basis. There were also the usual offerings of our State and municipal bonds, together with about $60,000,000 of foreign municipal and other bonds. The circulars received thus far in November indicate a marked falling off in the volume of offerings. It is reported that a number of large issues are being withheld pending a return of easier conditions in the money market.

Foreign Exchange and Foreign Trade

The decline of the chief European exchanges which has been progressive for several weeks, accelerated at the end of the current 30-day period. Sterling at 3.99½ and francs at 9.80 touched new low levels on November 20. These declines were anticipated eight days previously by a fall in lire to 12.83. German marks on November 18 sold at 2.05 cents, which compares with a parity before the war of 23.8 cents. Practically the only European exchanges which held their own were those on Spain and Switzerland. The rising price of silver has affected the Oriental exchanges, and rates for Shanghai and Hong Kong are now at a premium. The table at the foot of the page gives the weekly range of demand rates for the leading exchanges.

The excess of exports over imports as shown in the October foreign trade record for the country was $216,245,000. Total imports were $416,000,000,

EXCHANGE TABLE

WEEK ENDED	OCTOBER 25		NOVEMBER 1		NOVEMBER 8		NOVEMBER 15		NOVEMBER 22	
	High	Low	High	Low	High	Low	High	Low	High	Low
England	4.18¼	4.15	4.17¼	4.15¼	4.16¼	4.14¼	4.13⅞	4.10¼	4.08¾	3.99½
France	8.62	8.73	8.65	8.86	8.85	9.05	9.10	9.53	9.56	9.80
Italy	10.21	10.45	10.61	10.82	10.76	11.10	11.80	12.83	11.54	12.44
Spain	19.15	19.10	19.30	19.18	19.55	19.30	19.70	19.53	20.15	19.70
Argentina	42.35	42.35	42.35	42.35	42.40	42.35	42.90	42.90	43.05	43.05
Hong Kong	93.50	91.00	94.25	93.50	94.00	93.00	97.50	94.00	102.50	97.50
China (Shanghai)	136.50	134.50	142.00	136.50	139.00	139.00	147.00	142.00	149.50	147.00
Japan	50.625	50.625	50.625	50.625	50.625	50.625	50.50	50.50	50.50	50.50

about $19,000,000 below the figures for last month but considerably larger than for any other month on record. The custom house reports for New York show an unusual importation of luxuries, such as precious stones, silks, laces, rare woods and the like. Exports for October were $632,000,000, which is above the September figures but slightly below those for August. The decline in exports during September and early October coincided with the longshoremen's strike which tied up hundreds of vessels in this port.

Cost of Living

This has been a month of advancing prices for the majority of articles that enter into the cost of living. In the first week of November, 33 of the 313 articles, the wholesale prices of which are quoted by Dun's Review, advanced while only 12 declined. In the following week there was a decline in the prices of certain provision items, but it was more than offset by a rise in the prices of breadstuffs, vegetables, cotton goods and hides. The general average advance in the principal articles that determine the cost of living in that week was about 1½ per cent.

Retail Trade

The repressive effect of the war on personal expenditure which began to lift at the time the armistice was signed disappeared completely with most people upon the sale of the Victory Loan. Carefully compiled reports from several branches of retail trade, made particularly with a view to determine the extent of luxury buying, indicate that never has there been so much spending, such a demand for expensive articles and such disregard of prices. It is natural that New York City should be a primary market for luxury buying because people from all parts of the country go to its stores to spend their surplus funds; but reports from many sections of this district indicate that free spending is general and that the conclusions reached for New York apply elsewhere, in small and large cities alike.

Inquiry was made in six branches of retail trade, namely jewelry, furs, musical instruments, furniture, automobiles and clothing, and extended to department stores dealing in two or more of these specialties. Altogether somewhat more than forty stores and individual authorities were visited. Percentages showing the increase above a year ago in the volume of total sales, averaged from estimates made, were as follows:

	Percentage Increase in Sales Value	Percentage Increase in Units
Jewelry	48	44
Furs	57	48
Musical instruments	70	Indeterminate
Furniture	78	38
Clothing	141	53

Figures were not obtainable from passenger automobile dealers because of the current shortage in cars due to the somewhat slower readjustment from war production.

It appears from the inquiry that the increase in the value of sales is greater than the number of units sold. This difference is mainly a reflection of the increase in prices charged. Jewelers account for the fact that the total value of sales has increased only slightly more than the volume of units sold on the ground chiefly that gold is the basic material of jewelry, and that gold, because of its fixed price has not increased in dollar value. Furriers in telling why price increases in certain furs has not produced a greater difference say that the introduction of many furs not known heretofore in this market has tended to equalize the average of prices.

To high prices the buying public shows almost no resistance; buyers are either completely indifferent or they accept the higher prices as quite to be expected. Many of these new buyers are unaccustomed to former prices and accept the new scale therefore without question, often paying in cash.

Reports from the stores indicate that the wave of buying done by wage earners has somewhat subsided, a result, it was suggested, of strikes or unemployment caused by strikes. People who have possessed wealth for some time also have been disposed to limit their purchases, relying on present supplies to carry them through in the hope that prices may come down. The consensus of opinion among the retailers is that the bulk of the buying comes from the intermediate classes, and mainly from those whose wages or income has risen far above the amount required to maintain their former standard of living.

The jewelry trade reports an unprecedented demand for platinum and fine gold jewelry, diamonds and other precious stones. Within six months the price of diamonds has risen 100 per cent. A number of jewelers, particularly those who do not operate their own factories, say that they are having trouble getting enough goods to meet the demand and that they will have to face the Christmas season without sufficient stocks. The increase in the price of silver, which on November 20 was $1.32¾ an ounce, and therefore at or above the gold parity point, has caused a great rise in the price of silverware. Nevertheless the dealers report that the demand exceeds the supply.

Gold, on the other hand, while its dollar value remains stable, is cheap in precisely the ratio that general prices have risen. In the ten months of this year $48,500,000 of gold has been withdrawn from the Assay Office in New York for use at the arts. In October the highest amount in the history of the Assay Office was withdrawn. The increase in withdrawals appears from the following:

January	$3,825,323.09
February	3,744,780.08
March	4,353,164.33
April	4,859,454.04
May	4,636,782.33
June	5,499,574.40
July	4,856,319.15
August	5,343,637.29
September	5,444,690.82
October	6,004,972.87
Total	$48,568,698.40

Reports from the fur trade indicate that this year's business is the best ever known, despite the fact that for the last two or three years it has been unusually heavy, with rising prices. The furriers dealing in the most expensive articles are those who report the greatest increase in business.

Musical instruments cannot be produced in quantity to meet the demand. In the first six months of the year wage earners were buying lavishly. They were quite content to pay ten times as much for an instrument of the same sort they bought five years ago but of better grade. Latterly the volume of purchasing has shifted to those of larger incomes.

In the furniture trade there is a preference for higher grade goods, particularly luxury furniture, despite the fact that certain articles have advanced at least 100 per cent. Installment furniture houses say that manual workers are inclined to pay cash for their purchases or on short-term credit, while clerical workers are prone to extend their payments over a longer period.

In the clothing trade the season's business has been phenomenal. Reports from the dealers indicate variously that the increase in the dollar value of sales over last year is from 50 to 400 per cent. The highest grades of clothing have advanced probably less in proportion than the lower grades, because of the factor of labor, which costs nearly as much per hour on cheap products as on the more expensive. Luxury buying has been particularly heavy not only in millinery and other articles of women's wear, but in men's apparel.

The reckless buying that is indicated from many sources acts directly to postpone the return to lower prices, to produce over-expansion in the country's industries and to hamper the capacity of this country not only to maintain its financial position in the world, but to serve those parts of the world which are still suffering grievously from the losses of war. With this point of view the wisest retailers are fully in accord.

Collections and Failures

While collections are still good, credits are being watched more closely. According to the latest report in November of the Credit Clearing House, based upon transactions between wholesalers and retailers involving about $100,000,000, payments for the month in the eastern section of the country were 5 per cent. more than a year ago. Indebtedness, however, shows a slight increase.

Failures in this district for the month of October numbered 86 as compared with 92 last month and 115 in October, 1918. There was a reduction also in liabilities, which totaled $1,650,441 against $2,335,120 in September, and $4,295,328 in October, 1918. In early November there developed the usual increase in the number of failures throughout the country, but total figures are not yet in hand.

Crops

According to the November crop report for New York State, the yield per acre of all crops combined was 7 per cent. higher this season than the average in this state during the last ten years. While many crops, including hay, winter wheat, beans, tomatoes, hops and grapes yielded well, this has been distinctively a corn year. The excellent corn crop is ascribed to favorable weather early in the season, improved farming methods and more careful attention to the kind of seeds used. The yield of silage corn was 25 per cent. heavier than the average for the last few years, and it is of exceptionally good quality. Sweet corn raised for canning averaged 2.6 tons per acre compared with 1.10 tons last year, and corn husked for grain averaged two bushels per acre more than any previous harvest. The yield per acre of potatoes was much higher than was estimated earlier in the season, and the New York State crop is now estimated at 37½ million bushels, which is 5 million bushels above the ten-year average.

Iron and Steel

Further advances have taken place in iron and steel products, and these may be attributed almost wholly to the steel strike and to anticipations of the effect of the coal strike. Unfilled orders were increasing even before these strikes occurred, but not enough to tax the producing capacity of the plants. During the month ended November 4, however, pig iron went up $1.00 to $3.00 per ton, and old materials 50 cents to $2.50 per ton. Among finished products advances were few.

Lake Superior iron ore shipments to November 1 were 44,000,000 tons, or about 13,000,000 tons less than a year ago. Pig iron production for October was 1,865,000 tons against 2,488,000 for September, a decrease of 25 per cent. The number of men still out on strike, or out because of the strike, is now estimated by steel trade authorities at 15 to 20 per cent. of the normal working force. Thus far the coal strike has had no restrictive influence upon iron and steel production; but of course it is bound to have such an influence unless coal production speedily recovers.

Reports to us from manufacturers who use iron and steel in their own production indicate that no impairment in the supply of raw material has been felt on account of the steel strike. On the contrary in the majority of instances output is greater than a year ago and is still unequal to the demand, though at somewhat higher prices. Slow deliveries are blamed for such shortage of materials and output as prevails. Certain tool manufacturers report that unfilled orders are coming in at double the present rate of output, or are greater than ever before.

Cotton Market

Middling uplands cotton at New York continued to rise through the latter half of October and the first part of November and reached a price of 39¾ cents Never since 1866 has the New York quotation touched such a figure. The quotations of that year were in depreciated paper money, and as of a time when the world's production was still a mere fraction of normal in consequence of our Civil War. Aside from the Civil War period it is necessary to go back to 1799 to find a price for American cotton that compares with this level.

The main factor in this high price was of course the extraordinary foreign and domestic demand for American cotton, together with a threatened curtailment of production. Ginning is still far behind last year and the interior receipts for the season to October 31 were only 1,746,000 bales against 2,035,000 for the same period a year ago.

On the other hand current receipts are fully up to normal; in the last week of October they were 276,800 bales against 257,000 a year ago. The world's visible supply is large. Around the first of November it was placed by the leading authority at 4,632,000 bales against 3,955,000 at this time in 1918, and 3,692,000 in 1917.

The recession of the stock market on November 12 was reflected in cotton, which like stocks, has been the subject of active speculation. Prices fell off about 200 points, and no material recovery has taken place since.

Building Operations

This is the time of year when the amount of new contracts awarded normally diminishes because of the approach of winter. Yet for the autumn season building operations in this district, particularly residential construction, are holding well. By weeks the awards as shown in the advance reports of the F. W. Dodge Company were as shown at the foot of the page.

For the week ended November 7 details are not yet compiled, but the approximate total of the awards was $11,500,000. It is noticeable that the amount of building going on is still as large as it averaged for the month of October, and that residential building again constitutes a high percentage of the total. That this district is concentrating its attention on dwelling construction appears in a comparison of percentages. In the last week of October, for example, 44.2 per cent. of the awards in this district was for residential construction, which includes apartment and tenement houses, hotels and

BUILDING CONTRACTS

WEEK ENDED	RESIDENTAL AWARDS		OTHER AWARDS	TOTAL
	New floor space in square feet	Value	Value	Value
October 10	1,556,400	$5,505,600	$5,994,906	$11,500,506
" 17	405,800	1,976,500	7,111,510	9,088,010
" 24	1,658,700	5,281,300	7,442,100	12,723,400
" 31	1,477,600	4,629,200	3,151,600	10,468,600

garages as well as individual houses, whereas the percentage for the northern half of the country east of the mountain and Pacific Coast states was 27.3.

For the year to November 1 the total awards in New York State and Northern New Jersey amounted to $453,000,000 against $237,700,000 in 1918, $286,275,000 in 1917, and $223,800,000 in 1913. The latter figure was the highest attained before the war. Thus even allowing for the advance in building costs, the volume for the year thus far is notable.

Clothing, Dry Goods and Textiles Clothing manufacturers have had to resort to allotting their product for spring delivery because they in turn are subject to allotment in obtaining materials from woolen and worsted mills. Goods for winter use, the demand for which subsided somewhat a month ago on account of mild weather, are again in heavy demand.

The output of silk and cotton mills is reported sold up to the middle of 1920. The rate of production of these mills has increased but remains far behind the demand.

The knit goods trade also is unable to keep up with the demand for its products. Many orders for goods for export have been refused because of the inability of manufacturers to meet the domestic call for goods.

Shoe manufacturers report great difficulty in securing enough leathers of fine quality to meet the demand for high grade shoes. The shortage of material, together with labor difficulties, prompts manufacturers to say that as soon as present stocks are exhausted prices are likely to be advanced further.

Labor Early reports from the New York State Industrial Commission indicate that strikes reduced the sum total of employment about 2 per cent. in October as compared with September. This reduction was in spite of an increase of about 2 per cent. in the number of employees in localities or industries unaffected by strikes. The total reduction shown, however, is considerably less than the figures given out by labor leaders a month ago led one to anticipate. Those figures suggested that the reduction would amount to about 5 per cent.

On the whole, labor difficulties have diminished in the past month. A number of new strikes were started in New York City which promised to work hardship on the people, but they were quickly settled, usually with an increase in wages or shorter hours. The printers' strike is still on, though with slowly diminishing effectiveness. It has led certain publishers to try innovations in the extension of the use of electrotyping and lithography.

Wages of factory workers, as compiled by the New York State Industrial Commission, continue materially higher than during our participation in the war, and are 96 per cent. above the average for 1914. Thus it appears that wages on the average have advanced more than the cost of living.

This report is prepared monthly for the Federal Reserve Board. Copies are issued for the information of member banks and those who have contributed toward its preparation. Additional copies may be obtained by addressing

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