

The article on the last page describes the method of collecting checks under the Federal Reserve System.

# MONTHLY REVIEW

## Of Credit and Business Conditions

In the Second Federal Reserve District

By the Federal Reserve Agent, Federal Reserve Bank, New York

New York, July 1, 1921

### Credit Conditions

**D**URING and immediately after the war the power of the Reserve Banks to manufacture credit was utilized freely. Now their ability to take in the slack which is developing in the country's volume of credit is being tested. Lower prices, lessened business activity and the influx of gold from abroad in unprecedented sums, have reduced demands upon member banks for credit, and they in turn have found it advantageous to reduce their indebtedness at the Reserve Banks.

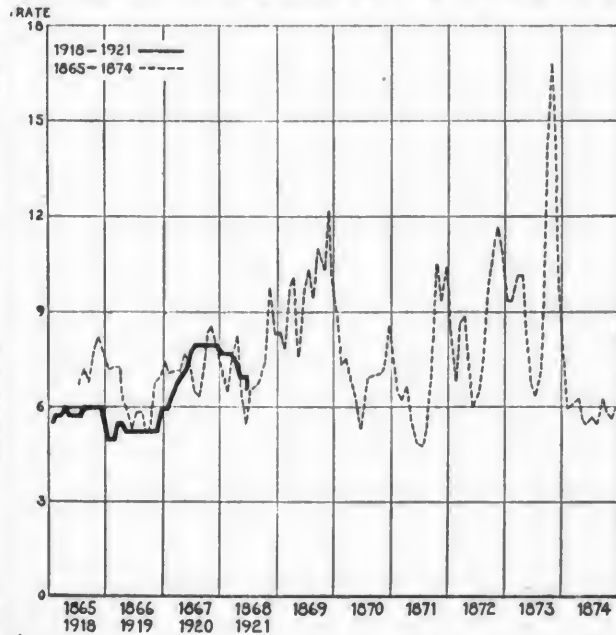
In previous years, there was no power in reserve for the creation of credit, and vice versa, there was no power whereby surplus credit could be retired and extinguished.

The country's credit machinery was rigid and there was very little facility for expanding or contracting it. When the demand for credit exceeded the supply, additional credit in one direction was usually to be obtained only by reducing it in another. When credit became excessive, the tendency, as business grew slack and prices fell, was for

currency and funds to return to New York and other credit centers, and as the banks sought to utilize their rapidly increasing deposits, interest rates fell abruptly. This often had the effect of stimulating speculation rather than healthy business activity. Under the new system, credit, as soon as it becomes excessive, is retired by the Reserve Banks, which created it; interest rates fall in a more orderly way, and the movement of credit more nearly approximates the movement of goods and prices. Thus the Reserve Banks through their capacity for taking in the slack in credit as it develops, act also as stabilizers of interest rates.

The diagram printed on this page compares interest rates at the close of the Civil War with those prevailing during the past two years and a half. After the Civil War interest rates rose and fell with violent and rapid fluctuations, and on the average maintained extraordinarily high levels for eight years. While in considerable degree this erratic movement of money rates reflected disorganization in finance and credit which is not present to-day, it nevertheless records the successive shocks to the financial machine the construction of which was relatively rigid and unyielding.

The facts in the present situation which indicate the extent to which in recent months credit has been released from emergency employment and subsequently retired, may be summarized as follows:



Interest Rate on Prime Commercial Paper After the Civil War and After the World War

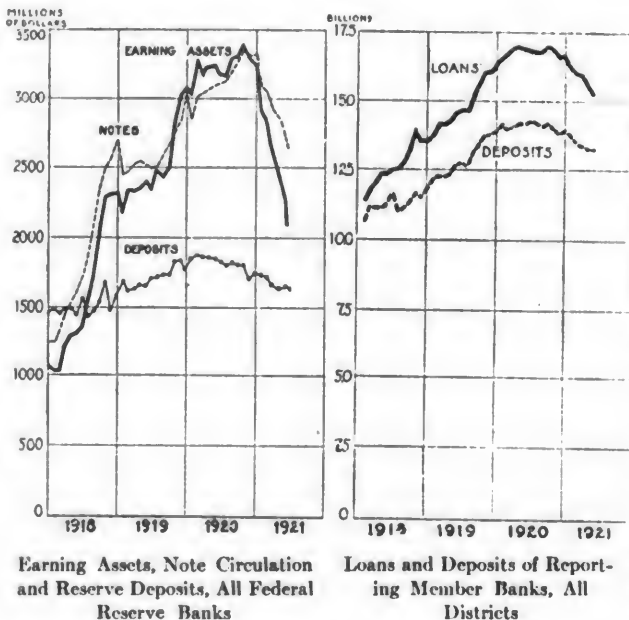
Wholesale prices (Department of Labor index) have declined from the high point of May, 1920.....	44 per cent.
Loans of 817 reporting member banks have declined from the high point of October 15, 1920.....	11 per cent.
Loans of all Federal Reserve Banks have declined from the high point of October 15, 1920.....	30 per cent.
Federal Reserve notes in circulation throughout the country have declined from the high point of December 23, 1920.....	22 per cent.
Amount of checks drawn on bank deposits, reflecting changes in prices and changes in the volume of business, have declined from the high point of November, 1919..	20 per cent.

Within the last month there have been further manifestations of easier credit conditions. The prevailing rate on commercial paper declined at the end of June from 7 to 6½ per cent., the rate on prime unindorsed 90-day bills was 5¼-5½ per cent., against 5¾ a month ago, and Stock Exchange call money was also lower. In part these declines were due to the large Government transactions centering on the quarterly tax day, when

this bank redeemed \$175,000,000 of Treasury certificates whereas the taxes paid in this district amounted to some \$90,000,000 less.

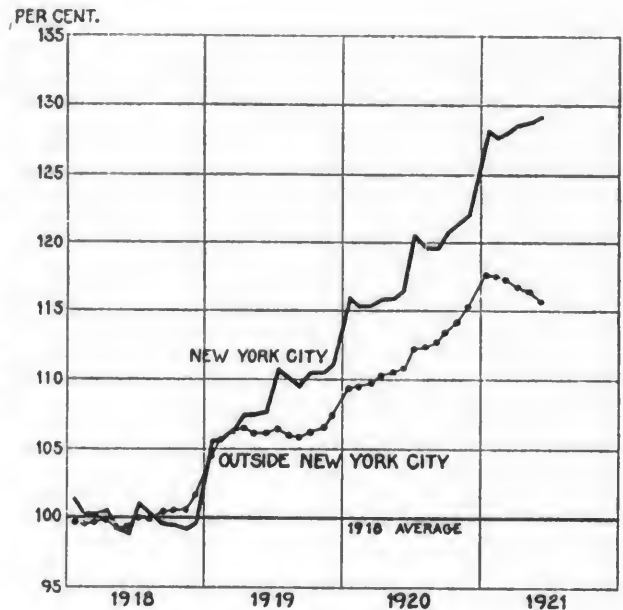
Taking the country as a whole, the loans of the Reserve Banks have declined in the last month \$180,000,000, whereas the loans of member banks moved irregularly. The course since 1918 of the movement of loans, and deposits of Reserve and member banks, as well as of Federal Reserve notes, is shown on the diagrams printed below. The loans of the New York Reserve Bank declined \$166,000,000 from May 25 to June 22, but the loans of New York City member banks remained practically stationary. In some of the other reserve districts the volume of credit continues to diminish, while in others it is increasing. This indicates that the volume of credit is moving in accordance with actual and seasonal agricultural, commercial, and industrial requirements, and that increasing reserves are not due to credit pressure by the banks.

On June 16 the Federal Reserve Bank of New York reduced its rate for discounts and advances on commercial and agricultural paper from  $6\frac{1}{2}$  to 6 per cent., thereby bringing the discount rate of the bank on all classes of eligible paper to 6 per cent. On June 23 the Bank of England took similar action, also reducing its rate from  $6\frac{1}{2}$  to 6 per cent.



### Savings Bank Deposits

Reports on June 10 of savings bank deposits in this district indicate a continuation of the movement of the past few months. Deposits in New York City increased while deposits of banks in ten cities of the district outside of New York show a falling off. The largest decreases are in up-State industrial centers in which unemployment has been severe for several months. The changes are shown in the following diagram:



Deposits of 11 Savings Banks in New York City and 10 Savings Banks in the Second District Outside New York City, Expressed as Percentages of Average Deposits in 1918

### Bill Market

Rates in the New York market for prime unindorsed 90-day bills increased in late May in common with other money rates, reaching  $5\frac{7}{8}$  per cent. By the middle of June the rate fell gradually to 5%, and the demand quickly reduced the dealers' portfolios, causing a shortage of prime bills. Subsequently rates on 90-day bills fell to  $5\frac{1}{4}$  per cent., and shorter maturities were slightly lower.

A survey of the bill market recently made by the American Acceptance Council places the volume of bills outstanding in the United States on April 1, 1921, at \$664,000,000 as compared with \$799,000,000 on April 1, 1920, a reduction of 18 per cent. A comparable figure for 4 to 6 months commercial paper tabulated by this bank from the reports of 11 dealers, shows a reduction of 28 per cent. during the same period. In New York City the shrinkage in the volume of bills held was less than 1 per cent., while outside this city it amounted to 41 per cent. A factor in the maintenance of the volume of bills here was the large amount of import bills received as well as the great increase in bills drawn to create dollar exchange.

During the past month the volume of bills drawn to create dollar exchange has decreased each week. New bills coming into the New York market include those covering the importation of silk from the Far East, and bills drawn under several large sugar import credits recently established.

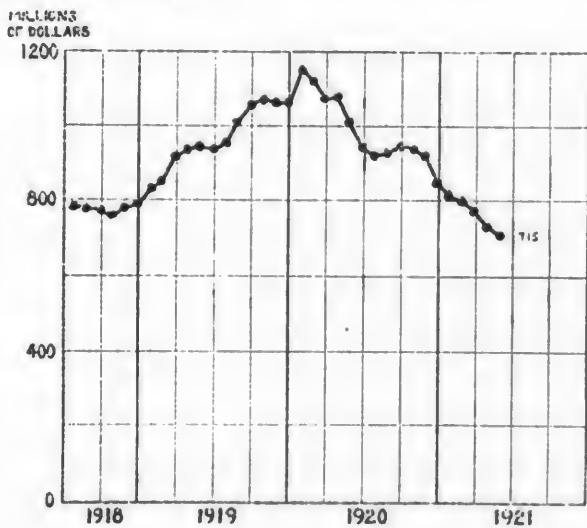
The minimum buying rates of the Federal Reserve Bank of New York have remained unchanged at  $5\frac{3}{4}$  to 6 per cent. for indorsed prime bills ranging up to 90 days' maturity.

### Commercial Paper

At the end of June the prevailing rate on commercial paper fell to  $6\frac{1}{2}$  per cent. from the 7 per cent. rate which has ruled since early in May. Exceptional names continue to be sold at  $6\frac{1}{4}$  and occasionally 6 per cent. There have been fewer offerings of slow-moving paper at rates above the ruling rate.

The volume of sales has continued small. Within New York City, however, purchases by banks which have been practically confined to a few of the up-town institutions, were extended to a few of the larger downtown banks for their own account. In the smaller cities within a comparatively narrow radius of New York City sales have been moderately good but elsewhere they have been scattered. There has been some falling off in sales to Middle Western and New England customers, and practically no demand from the Pacific coast. Dealers report that paper of most well-known names can be obtained readily, but sales have not warranted any increase in dealers' purchases.

The volume of commercial paper outstanding through eleven principal dealers on May 31 was about 2 per cent. below the total for these same dealers a month previous, the smallest outstanding reported since this bank has been tabulating the figures.



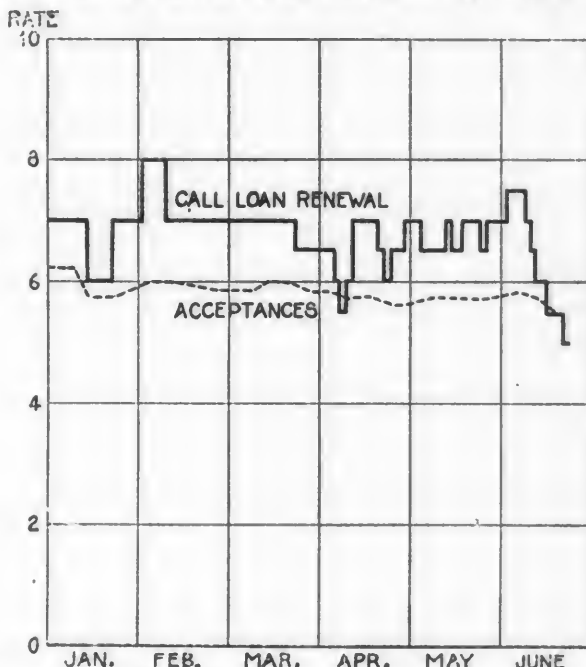
Commercial Paper Outstanding—Eleven Dealers

### Stock Market Money Rates

A slightly higher rate for Stock Exchange call money which prevailed in late May and early June, when the rate rose to  $7\frac{1}{2}$  per cent., was followed by a decline around the quarterly tax date, as has become usual. At that time the Federal Reserve Bank redeemed Treasury certificates of indebtedness in excess of the taxes paid in this district, advancing funds to the Treasury during the period when tax checks were in process of collection and pending the transfer of tax receipts from other districts. The rate on the Stock Exchange declined to  $5\frac{1}{2}$  and later to 5 per cent., and call money was available outside the market

at  $3\frac{1}{2}$  to 5 per cent. Time loans moved correspondingly, but within narrower limits, and the amount of business done continued to be small.

In the following diagram comparison is made between the renewal rate on Stock Exchange call money and the rate on 90-day bankers acceptances, since January 1.



Call Loan Renewal Rate and Prevailing Rate on Prime 90-Day Bankers Acceptances at New York

### Bond Market

During the first three weeks of June corporate securities continued the decline which began early in May. Both industrial and railroad bonds lost most of the ground that was gained in the early weeks of this year and late in June average prices were but little above those prevailing at the close of December.

The unsatisfactory state of the steel industry, inactivity in the automobile trade and the suspension of dividends, further declines in the prices of crude oil and sugar, and the lack of demand for rubber and copper products were factors contributing to this decline.

Foreign government bonds held fairly steady during June in spite of the weakness of foreign exchange rates. Mexican securities, after advancing on receipt of favorable news from Mexico, reacted toward the close of June.

Total bond sales, excluding Liberty bonds, were about \$115,340,000 during May, compared with \$94,500,000 during April and \$68,527,000 in May, 1920. Sales during the first three weeks of June were somewhat larger than those during the weeks immediately preceding.

### United States Securities

A combined offering of three-year  $5\frac{3}{4}$  per cent. United States Treasury notes and one-year  $5\frac{1}{2}$  per cent. United States Treasury certificates, dated and bearing interest

from June 15, was considerably oversubscribed. The note issues were the first of a new series of longer-term obligations which will be offered by the United States Government as a part of the program to refund the early maturing debt. Subscriptions were about evenly divided between notes and certificates of indebtedness. The distribution of the issues is shown in the following table.

	Total Subscriptions Received	Treasury Notes Allotted	Treasury Certificates Allotted	Total Subscriptions Allotted
Second Dist. . . . .	\$394,353,500	\$157,225,200	\$137,155,500	\$294,380,700
All Districts . . . . .	788,007,000	311,191,600	314,184,000	625,375,600

Open market sales of certificates of indebtedness during the first three weeks of June were at a higher rate than in any previous month. There was also an active demand in the open market for the short-term notes after they had been issued.

On the New York Stock Exchange the 3½ per cent. Liberty bonds declined rather sharply during the latter part of May and early in June, but most of the losses were recovered. Fluctuations in quotations of other Liberty bonds were narrow and irregular during June. Victory notes were somewhat higher.

The total sales of Government war issues on the New York Stock Exchange during May were \$127,800,000, compared with \$138,500,000 in April and with \$300,000,000 in May, 1920.

### New Financing

New security issues have been restricted during June owing to the need of absorbing the large volume of new financing placed in this market during April and in lesser degree during May. The sale of a number of large issues in quick succession resulted in a degree of saturation in the investment market similar to that which prevailed during March.

Subscription books were opened late in May to a new loan of \$100,000,000 to the French Government and the major portion of the issue was quickly taken but applications for the remainder came in slowly.

A number of new municipal and State issues have been offered, of which the largest was \$31,800,000 New York State 5 per cent. bonds maturing serially up to 1971, and yielding from 4.70 to 5.25 per cent. This is the highest yield basis for such issues in more than twenty years.

Domestic capital issues in May totaled about \$178,000,000, slightly less than half the volume of April financing, but \$40,000,000 more than the total for March. More than 68 per cent. of the May financing was by industrial concerns as compared with only 39 per cent. in April when railroad issues predominated.

### Stock Market

The decline in stock prices which developed early in May, was continued during June. On June 20, the average price of twenty representative railroad shares fell to \$65.52, nearly two points under the low average established last December and the lowest since the summer of 1898. The average price of twenty representative industrial stocks declined to \$64.90, also two points under the low average established last December and the lowest since the early months of 1915. Losses were general among nearly all of the more active shares and ranged from five to twenty points.

Total sales during the month of May were about \$17,000,000, compared with \$15,000,000 during April. During the first three weeks of June trading was more active than during May.

### Gold Movement

The table below shows the amount of gold imported from various countries during the first five months this year, according to the latest revised figures. Total exports of gold and the excess of imports are also shown.

(In thousands)

	Jan.	Feb.	Mar.	Apr.	May	Total
England . . . . .	\$17,765	\$ 9,323	\$24,075	\$13,771	\$18,807	\$ 83,741
France . . . . .	4,695	13,584	20,956	10,895	9,720	65,856
Sweden . . . . .	.....	.....	4,679	24,801	7,846	37,326
Canada . . . . .	188	538	19,827	158	140	20,851
China and Hong Kong	2,354	7,500	2,654	3,980	2,370	18,858
British India . . . . .	1,014	5,008	2,059	3,214	4,305	15,600
Netherlands . . . . .	394	224	939	11,052	2,657	15,266
All other . . . . .	7,225	6,702	6,184	13,792	12,409	46,312
Total Imports . . . . .	\$33,635	\$42,879	\$87,373	\$81,663	\$58,260	\$303,810
Total Exports . . . . .	2,725	1,036	710	384	1,062	5,917
Excess Imports . . . . .	\$30,910	\$41,843	\$86,663	\$81,279	\$57,198	\$297,893

In the first ten days of June gold imports totaled \$20,570,000, of which \$7,623,000 came from England, \$5,854,000 from Sweden, and \$3,434,000 from France. The amount of exports was negligible.

May and June imports bring the total stock of monetary gold in the United States to \$3,196,000,000, the highest point ever reached. The previous maximum was \$3,122,000,000 reached on May 1, 1917. Present holdings are approximately one-third of the world's stock of monetary gold.

### Foreign Exchange

The demand for dollars in connection with the German reparations payment early in June was accompanied by a precipitate decline in sterling, which on May 17 had reached a point slightly above \$4.00 to the pound. Coin-



ciding with this special requirement was a lessening in the volume of British exports on account of the coal strike, and hence a smaller amount of credits available to British merchants in this and other countries. These two factors, one increasing the demand for dollars and the other causing some contraction in the supply, served to increase the cost of the American dollar in terms of the British pound. By June 9 sterling fell to \$3.68½, the lowest quotation at New York since January 10. Continental rates moved in general correspondence with sterling.

It is reported that the decline in the exchanges of Allied countries has caused the Reparations Commission and the financial authorities of the respective nations to consider the possible revision of the plan under which Germany shall make future payments.

Successful flotation of the Brazilian loan in May and rumors that a loan to Argentina was in prospect were reflected in temporary strength in the rates on these two countries late in May, but subsequently further losses were sustained in both rates. In the third week of June Argentine exchange was so unsettled that trading in futures was practically at a standstill and it was difficult to negotiate commercial merchandise drafts.

The following table shows the closing quotations for principal exchanges on June 18, the change from last month, and per cent. depreciation from par.

Country	June 18 Last	Change from May 21	Per Cent. Depreciation from Par
England.....	\$3.7950	-.2013	22.0
France.....	.0821	-.0056	57.5
Italy.....	.0508	-.0049	73.7
Spain.....	.1330	-.0017	31.1
Germany.....	.0146	-.0024	93.9
Switzerland.....	.1703	-.0100	11.8
Sweden (Stockholm).....	.2240	-.0120	16.4
Holland.....	.3330	-.0256	17.2
Belgium.....	.0803	-.0073	58.4
Argentina.....	.3049	-.0073	28.2
China (Hong Kong).....	.4838	-.0075	*
China (Shanghai).....	.6588	+.0100	*
Japan (Yokohama).....	.4788	-.0037	4.0
Canada.....	.8894	-.0056	11.1
Bar Silver in N. Y.....	.5900	+.0037	....

\*Silver Exchange Basis.

### Foreign Trade

Unsettling in the foreign exchanges is reported to have affected adversely the demand for American goods in certain foreign markets. There were, however, some important exceptions.

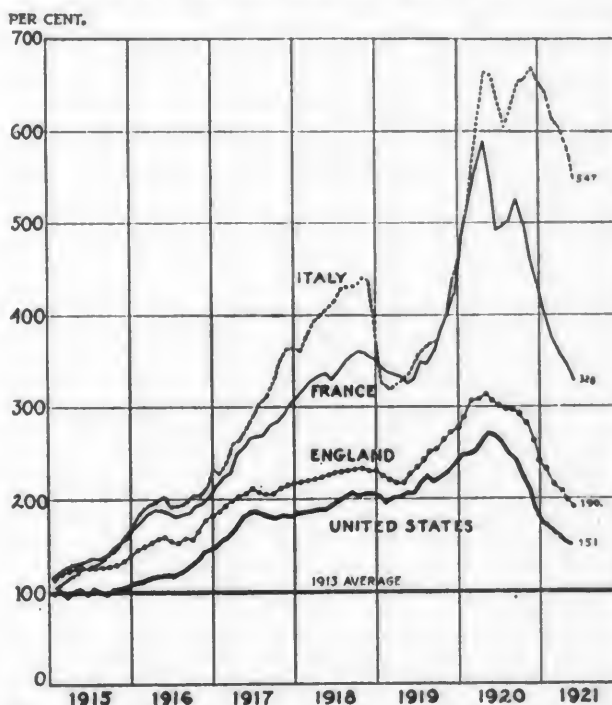
Purchases of cotton by China and Japan have further increased, and shipments to Shanghai rose materially during the first three weeks of June. Sales of cotton to Poland in substantial amounts are also reported. Much cotton continues to be shipped to German and Baltic ports on consignment. Total raw cotton exports from the United States were nearly 50 per cent. greater in May than in April. May shipments were 477,000 bales as compared with 320,000 in April and 365,000 in May, 1920.

Sales to Argentina and Brazil of staples such as food-stuffs, kerosene, small manufactured goods, and some types of cotton goods are reported. American exporters have recently begun the organization of a liquidating company to take over stocks of American goods refused heretofore by South American purchasers as a result of depressed business conditions, decline in prices and weakness in exchange rates. One export house which has been liquidating its own rejected shipments in South America reports recent sales of goods at very satisfactory prices.

Shortly after the middle of June shipments of coal to the United Kingdom from Atlantic ports materially increased. Orders had been delayed until recently in expectation of a settlement of the British coal strike.

The demand for steel products in the Far East, an important factor in the May export steel market, fell off during June, although there were still occasional inquiries. The demand from South American countries was limited practically to small government orders for rails and bridge materials.

May exports were reported by the Department of Commerce at \$330,000,000 as compared with \$340,000,000 in April. Imports were valued at \$208,000,000 in May, a reduction of 8 per cent. from the April figure.



Wholesale Commodity Prices in Four Countries Expressed as Percentages of Average Prices in 1913

### World Commodity Prices

In the United States, England, and Japan the slowing down in the rate of decline of commodity prices which was recorded in April was even more marked in May. In France, Italy, Sweden, and Germany, countries in which

liquidation has been much less rapid and less complete, the price declines in May were greater than in April. The price indices of these countries appear in the table at the foot of this page, and the most reliable indices of the general level of prices in four principal countries are plotted in the diagram on page 5. For the United States the Department of Labor index is used and for England the Statist index.

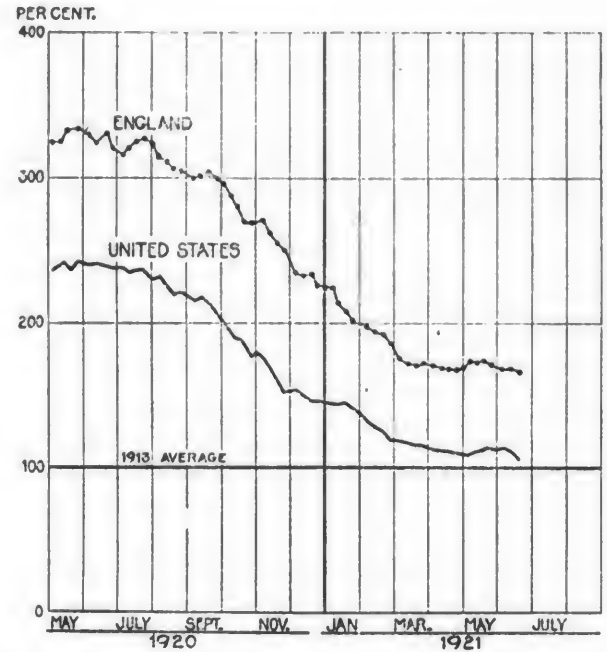
A change in the prices of major basic commodities is largely responsible for the slackened decline of prices in the United States and England. The movement of the prices of these basic commodities is illustrated by the accompanying diagram which shows indices for the prices of twelve basic commodities in the United States and twenty-five basic commodities in England which are computed each week by this bank.

The two indices run very closely parallel demonstrating the close relationship between commodity markets in the two countries. In the past twelve months these indices for basic commodities have tended in advance of those indices which contain prices of larger numbers of commodities and which represent more closely the general price levels. They have also tended to be more sensitive to current changes.

Since March these basic commodity indices have leveled off and in May there was a distinct upward movement. In the early weeks of June there has been, however, a considerable drop and the indices are now at the lowest point since the decline began. The British index is now 67 per cent. above the 1913 level and that for the United States only 6 per cent. above.

### Domestic Commodity Prices

The monthly index number of wholesale prices compiled by the United States Department of Labor, from the aver-



Wholesale Prices of 12 Basic Commodities in the United States<sup>a</sup> and 25 Basic Commodities in England Expressed as Percentages of Average Prices in 1913

age wholesale prices of 326 commodities, declined during May from 154 to 151, or 1.9 per cent., as compared with a decline from 162 to 154, or 4.9 per cent., during April. The latest decline is the smallest which has taken place since June, 1920, when prices first started to fall.

### Indices of Wholesale Prices

Base of 1913 = 100 per cent. unless otherwise noted

Country	Latest Quotation	Per Cent. Change During			Per Cent. Decline from High	Date of High
		March	April	May		
<b>United States:</b>						
12 basic commodities*	106 (June 18)	-5.5	-3.1	+2.4	56	May 17, 1920
Department of Labor	151 (May av.)	-3.0	-4.9	-1.9	44	May 1920
Dun's	137 (June 1)	-4.1	-4.4	-0.4	37	May 1, 1920
Bradstreet's	115 (June 1)	-4.1	-4.9	-1.9	49	Feb. 1, 1920
<b>Great Britain:</b>						
Economist	182 (June 1)	-1.5	-3.3	-0.3	41	Apr. 1, 1920
Statist	191 (June 1)	-3.2	-4.2	-4.5	39	May 1, 1920
25 basic commodities*	167 (June 18)	-8.2	-0.2	+1.3	52	Mar. 12, 1920
France	328 (June 1)	-4.7	-3.5r	-5.4	44	May 1, 1920
Italy	547 (June 1)	-1.6	-3.2	-6.3	18	Dec. 1, 1920
Japan	191 (May av.)	-2.1	-0.5	+0.5	41	Mar. 1920
Canada	185 (May 15)	-2.6	-3.6	-2.5	31	May 15, 1920
Sweden†	218 (May 15)	-5.2	-3.4	-4.8	41	Dec. 15, 1918
Australia‡	171 (Apr. av.)	-5.7	-5.5		28	Aug. 1920
Norway	273 (May 1)	-0.9	-2.1		37	Oct. 1, 1920
Germany§	1407 (June 1)	-0.8	0	-1.5	18	May 1, 1920
Denmark	257 (May 1)	-3.6	-4.8		36	Nov. 1, 1920

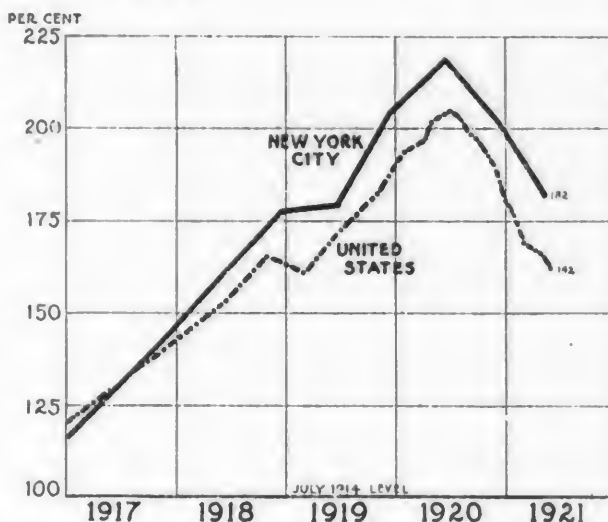
\* Computed by this bank. † July 1, 1913, to June 30, 1914 = 100. ‡ July, 1914 = 100. § Middle of 1914 = 100. || July, 1912-June, 1914 = 100. r. Revised.

The movement of prices of different groups of commodities making up the Department of Labor index number is shown in the following table.

Commodity Group	Maximum Level	May Level	Per Cent. Decline from Maximum	Per Cent. Change from April
Farm Products.....	246	117	52.4	+1.7
Metals.....	195	138	29.2	.0
Food, etc.....	287	133	53.7	-5.7
Chemicals, etc.....	222	166	25.2	-1.2
Cloths and Clothing...	356	181	49.2	-2.7
Fuel and Lighting.....	284	194	31.7	-2.5
Building Materials.....	341	202	40.8	-0.5
House Furnishings.....	371	262	29.4	-4.4
Miscellaneous.....	247	151	38.9	-1.9
All.....	272	151	44.5	-1.9

The June 15 quotations for the prices of a number of principal basic commodities expressed as percentages of the 1913 average prices and the changes in the past three months are given in the following table. The quotations are for standard specifications and are secured from trade journals or associations. While some of the changes shown in the table reflect day to day shifts, the general monthly movement is indicated by the relative numbers of increases and decreases: in the month ended April 15 there were 4 increases; in the month ended May 14 there were 10; and in the latest reported month there were 6. Important factors in recent movements have been varying reports as to crop conditions and the swings of the speculative market.

Commodity	Price June 15 (1913 = 100)	Per Cent. of Change		
		Mar. 15 to Apr. 15	Apr. 15 to May 14	May 14 to June 15
<b>Foods</b>				
Flour.....	202	- 7	+ 7	+10
Wheat.....	142	-24	+19	- 6
Sugar—Refined.....	134	- 4	-18	- 9
Steers.....	90	-14	+ 3	- 4
Corn.....	98	-14	+10	+ 1
Hogs.....	97	-18	+ 2	- 7
Coffee.....	59	0	- 2	+13
<b>Textiles</b>				
Worsted Serge.....	214	0	0	0
Silk—Raw.....	159	+ 5	-10	+ 4
Wool—Raw.....	147	- 3	0	- 6
Cotton Print Cloths..	123	- 6	0	0
Cotton—Raw.....	95	+ 6	+ 2	- 3
<b>Minerals</b>				
Coal—Bituminous...	151	0	- 8	- 8
Pig Iron.....	143	- 8	- 4	- 5
Copper.....	84	+ 6	+ 2	0
<b>Building Materials</b>				
Brick.....	278	- 5	-11	0
Cement.....	177	- 6	0	- 3
Steel—Structural....	147	+ 5	+ 5	0
<b>Miscellaneous</b>				
Paper—Newsprint...	262	- 7	0	0
Tobacco.....	196	- 1	+ 8	+ 2
Gasoline.....	146	0	0	- 6
Petroleum.....	106	0	-14	-33
Hides.....	76	-10	+26	+17
Rubber.....	19	-13	0	-23



The Cost of Living in New York City (Reported by the Department of Labor), and in the United States (Reported by the National Industrial Conference Board), Expressed as Percentages of Figures for July, 1914

### Cost of Living

The index number of the National Industrial Conference Board for the cost of living of a wage-earner's family in the United States shows a decline of 2 per cent. during May, a slightly larger decrease than in March or April. The decline is due altogether to a 4.6 per cent. drop in food prices and a 3.6 per cent. drop in clothing prices. Other groups remain unchanged.

The United States Department of Labor has just announced cost of living figures for the month of May for 27 principal cities. The figures in general tend to be somewhat higher than those computed by the National Industrial Conference Board for the entire country. This is indicated by the diagram at the top of this page. The following table gives the latest figures reported for important centers by the Department of Labor, together with figures for the country as a whole reported by the Conference Board. Cities are listed in order by the increase which May figures show above the 1914 base. Information for cities in this district is printed in bold-faced type.

Location	May, 1921	Per Cent. Decline from Peak
Detroit.....	193.3	18.1
Jacksonville, Fla.....	185.8	14.2
Cleveland.....	184.7	14.8
<b>New York City.....</b>	<b>181.7</b>	<b>17.1</b>
<b>Buffalo, N. Y.....</b>	<b>180.3</b>	<b>18.6</b>
Seattle.....	180.2	14.4
Philadelphia.....	179.8	15.8
Houston.....	179.7	15.3
Chicago.....	178.4	16.9
Baltimore.....	177.4	17.2
Washington, D. C.....	167.1	17.0
Portland, Ore.....	162.2	19.1
United States.....	161.9	20.8

In general it may be said that industrial cities tend to show greater increases in the cost of living than those which are agricultural centers. An average of the May index numbers for seven industrial cities was 16 per cent. higher than that for seven cities in agricultural districts east of the Rockies. Food ranks first in importance among the various items in the budget and in every case was from 15 to 20 per cent. higher in the industrial cities. Housing costs increased in both groups, but the increase in the industrial centers since December, 1920, was about 7 per cent. while it was about 2½ per cent. in the agricultural centers.

Figures for New York City and the United States for individual items of the cost of living are given in the following table, taking figures for 1914 as a base of 100 per cent.

Items	May, 1921		Per Cent. Decline from High	
	United States	New York City	United States	New York City
Food.....	145	142.5	33.8	30.6
Shelter.....	171	142.2	0.0	0.0
Clothing.....	162	259.5	43.8	24.0
Fuel and Light.....	178	195.9	11.0	0.0
House Furnishings.....	.....	256.5	.....	15.9
Miscellaneous.....	185	217.6	3.6	0.0
Total.....	161.9	181.7	20.8	17.1

### Wages

Further readjustments of wages took place during the past month. In practically all of the major groups of industries in this district reductions either have been effected already or have been announced to become operative at a later date.

Several public utility companies, one of the last groups of large employers to revise wages, announced reductions during the month. Receivers for the Brooklyn Rapid Transit Company will revise the rates of pay, the amount of the reductions to be determined by the decline in the cost of living. The Interborough Rapid Transit Company has an agreement with its employees that does not expire until December 31, but the men have consented to enter into negotiations that may lead to a reduction at an earlier date. Reductions in up-State centers resulted in some labor troubles, but have been carried through. In northern New Jersey the agreement between the carmen and the Public Service Railway Company expires on August 1, and negotiations are now under way to determine what reductions may be made. Other public service corporations in New Jersey have already made reductions.

The printing and publishing industry was one of the last to feel the effects of changed industrial conditions and one of the last to revise wages. In New York City reductions of 10 to 15 per cent. in the pay of about two-thirds of the employees have already been made. The working agreement with the compositors' union, comprising about 25 per cent. of the workers, has not termi-

nated. In up-State centers labor troubles resulted from efforts of the unions to install the 44-hour week, but for the most part these have been adjusted and reductions made.

The building trades are an exception in the general readjustment. Efforts to reduce wages outside of New York City have resulted in labor troubles which have not yet been settled. In New York City the agreements between employers and the various unions do not expire until the end of the year and except in the case of unorganized workers no reductions have been put into effect. Some of the unions, however, have expressed a desire to consider revisions before the expiration of the agreement in the belief that lower wages will stimulate building and thus provide employment for many workmen who are now idle.

The average factory wage in New York State during May, as reported by the State Industrial Commission, was \$25.86, a reduction of 1.3 per cent. from the previous month and of 10.6 per cent. from the highest point, reached last October. The average wage is now 104 per cent. higher than in 1914.

Average weekly earnings in 13 selected industries throughout the United States in May as reported by the United States Department of Labor were 22 per cent. below the high point of last October. Total wage payments to employees in 13 selected industries throughout the country have declined 39 per cent. since May, 1920.

### Employment

Reports received by this bank indicate that during the past month there has been a gradual, but nevertheless a steady decline in the number of persons employed in this district. The New York State Industrial Commission found that between April and May there was a decline of 2 per cent. in the number employed in the factories of the State. In May the number of factory workers was 27 per cent. below the number employed in March, 1920.

Reductions in employment took place in the iron and steel industries, in electrical and other machinery plants and in automobile plants, because of the lack of new orders. Railroads made additional reductions in the number of their employees.

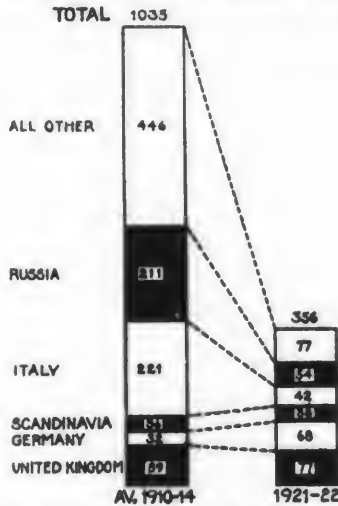
In the textile industry there was no important change during June. The woolen mills increased their forces slightly, but this gain was offset by a small decrease in the number employed in silk mills and in some factories that make cotton products. The number employed in the men's clothing industry in New York City was increased materially through the settlement of the strike which had been in progress for six months, but the number employed by factories making women's apparel suffered the usual seasonal decrease.

### Immigration

Early in June a bill was signed by the President limiting the number of alien immigrants of any nationality to be admitted each year to the United States to 3 per cent. of the number of foreign-born residents of such nationality according to the census of 1910. The number that may



be admitted in the year from July 1, 1921, to June 30, 1922, is compared in the following diagram with the average number of immigrants admitted in the years 1910 to 1914. Figures for Russia in the second column include an estimate for those territories which formerly were a part of Russia. Admissions direct from Russia are dependent on the resumption of diplomatic relations.



Immigrants to be Admitted to the United States from July 1, 1921, to June 30, 1922, Compared with the Average Number Admitted Each Year from 1910 to 1914 (Figures in Thousands)

The number of immigrants en route to the United States at the time the bill was passed was so great that June admissions could not be kept within the monthly quota of 27,000 allowed by the new law without sending a great many back to Europe. A number in excess of the quota therefore have been admitted conditionally.

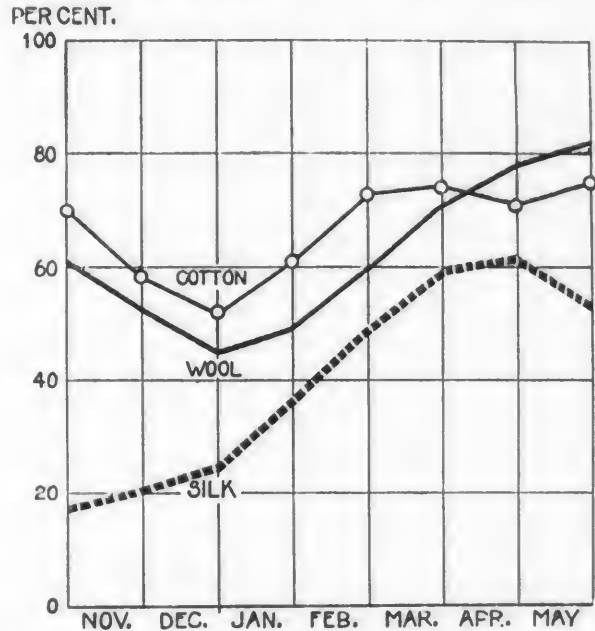
In anticipation of legislation the number of arrivals during May was the largest since last September and October, while the number of departures showed a decrease as shown by the table that follows.

Month	Arrivals	Departures	Net Increase
Monthly Aver., 1910 to 1914.	63,316	18,082	45,234
January, 1921.	50,465	37,442	13,023
February, 1921.	34,595	22,404	12,191
March, 1921.	43,114	22,140	20,974
April, 1921.	46,101	25,181	20,920
May, 1921.	68,428	20,558	47,870

**Volume of Production**

The most consistent general increase in volume of production is found in the textile industry. The percentage of maximum capacity at which machinery in the wool, cotton, and silk industries was operating each month since November of last year is shown in the following diagram. For wool, Government figures on active machinery for the country as a whole are used; for cotton, Government reports on cotton consumption; and for silk,

loom hour reports for the industry in this district. The following diagram shows the changes which have taken place in the three major branches of the textile industry since the first of the year.



Per Cent. of Maximum Capacity at Which the Cotton, Wool, and Silk Industries Were Operating Each Month

Current figures for the production of other basic commodities continue to show no consistent general movement. The figures for May show about as many decreases as increases compared with the April figures. The table below shows the production each month of 1921 expressed as a percentage of the average figure for corresponding months in 1919 and 1920.

Commodity	Jan.	Feb.	Mar.	Apr.	May
Anthracite coal mined	109	137	122	118	100
Bituminous coal mined	88	85	75	80	86
Cement production	88	92	115	121	112
Cotton consumption	64	83	87	78	85
Pig iron production	77	66	49	46	48
Steel ingot production	73	63	53	50	53
Sugar meltings	56	73	117	87	79
Tin deliveries	54	41	47	48*	35*
Wheat flour milled	76	82	95	100	89
Meat slaughtered	84	99	96	100	93
Wool consumption	46†	79†	91†	96†	104†

\* Compared with 1920, corresponding month.  
 † Estimated on basis of active machinery reports.

**Stocks on Hand**

Index figures for stocks in the United States, of cotton, coffee, petroleum, paper, tin, and wool were larger in May than in January, and stocks of silk, grain, and sugar

were smaller. The table below shows stocks each month of 1921 expressed as percentages of the averages of the corresponding months in 1919 and 1920.

	Jun. 1	Feb. 1	Mar. 1	Apr. 1	May 1
1 Cotton.....	111	116	119	121	125
2 Silk* (N. Y. Warehouses)...	89	47	43	31	45
3 Wool.....	135	...	...	176	...
4 Coffee.....	128	138	166	141	136
5 Grain (8 seaboard centers)	117	108	108	90	61
6 Sugar.....	381	167	111	116	183
7 Oil (held by pipe lines)....	107	102	107	112	116
8 Tin*.....	83	68	95	122	91
9 Paper (at mills).....	118	125	122	130	...

\*Compared with 1920 only.

### Business Failures

Commercial failures in the United States during May were about 9 per cent. less in number than in April, but the May liabilities were greater than in April because of a single large failure, that of a fur brokerage house in St. Louis. During the first three weeks of June the number of failures reported was practically the same as the weekly average in April and May.

The following figures are taken from Dun's reports for this district and for the entire country.

Month	Number of Failures		Liabilities	
	Second Federal Reserve District	Entire United States	Second Federal Reserve District	Entire United States
January.....	390	1,805	\$9,808,623	\$52,136,631
February.....	222	1,641	26,836,505	60,852,449
March.....	248	1,336	30,836,852	67,408,909
April.....	229	1,487	10,471,232	38,507,769
May.....	222	1,356	11,172,495	57,006,471

### Iron and Steel

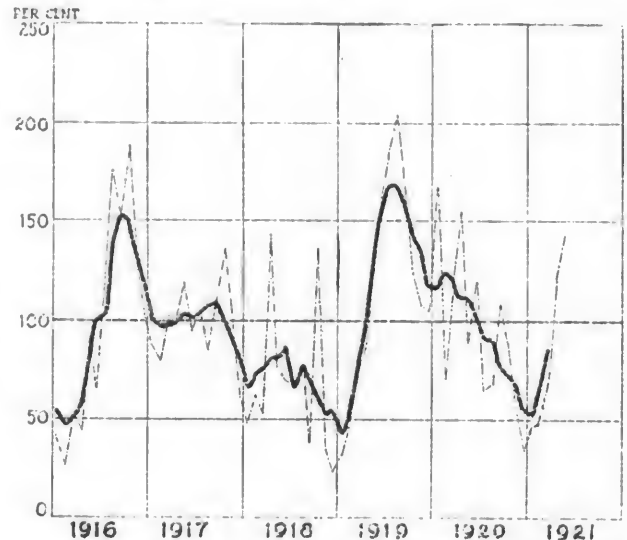
The steel industry has been operating at less than 25 per cent. of capacity during the latter part of June as compared with about 30 per cent. in May. The actual monthly production is now lower than at any previous time since 1908. The United States Steel Corporation still had unfilled orders at the end of May for about 5,500,000 tons and its mills are operating at a somewhat higher rate than the mills of the independent companies.

For several months consumption of steel has been in excess of the rate of production and stocks on hand have been greatly reduced throughout the country. New orders have been placed only for minimum necessary domestic requirements while American bidders for foreign iron and steel orders have in many cases been underbid by European producers. There has recently been some shading of price quotations by the independent companies on small orders for wire products, sheets, chain, and cast-iron pipe but no general lowering of prices.

### Volume of Building

Building contract awards in New York and Northern New Jersey in May represented a volume of actual construction probably as great as in any month of May in recent years. This is shown in the following diagram of the volume of building which allows for price changes.

Residential building has increased during the past five months not only in actual volume but also in the proportion it bears to all new construction.



Volume of Building in New York and Northern New Jersey Expressed as Percentages of Average Figures for 1913. Light Line Shows Figures for Each Month. Heavy Line is Average Showing General Trend

### Crop Conditions

The June 1 forecast of the Department of Agriculture placed the 1921 production of spring wheat more than 20 per cent. in excess of the 1920 harvest and the production of both spring and winter wheat more than 5 per cent. larger than in 1920. It placed the yield of hay 10 per cent. larger than in 1920, but the yield of oats about 8 per cent. less than that of last year. No preliminary estimate for corn has been made although in this district it was reported in the latter part of June to be making excellent growth. The grain crops in the Second Federal Reserve District are in general about 2 or 3 per cent. above the average condition of these crops in June of the past ten years but they have recently suffered considerable damage from lack of moisture.

Recent estimates of the fruit crops indicate a greater damage by the frosts of April and May than had at first been thought. The apple crop of New York State, which last year was nearly one quarter of the total crop of the United States, is now estimated at less than 35 per cent. as large as in 1920. The prospects for peaches and pears are somewhat better but the yield of each will be only 60 to 80 per cent. as large as last year. Other fruit crops have also been greatly damaged in both New York State and New Jersey.

**Railway Traffic**

Railway freight traffic, as indicated by the weekly totals of freight car loadings, has slowly increased during the second quarter of the year but remains considerably below the 1920 shipments for the corresponding period. Car loadings each week are now 15 or 20 per cent. greater than they were two months ago, largely as the result of a 50 per cent. increase in the movement of coal. Shipments of practically every other classification have been increasing during recent weeks. An increase in loadings is normal for this time of year.

Preliminary reports from railroads centering in New York City indicate a further slight gain in June as a result of further increases in the weekly output of both anthracite and bituminous coal.

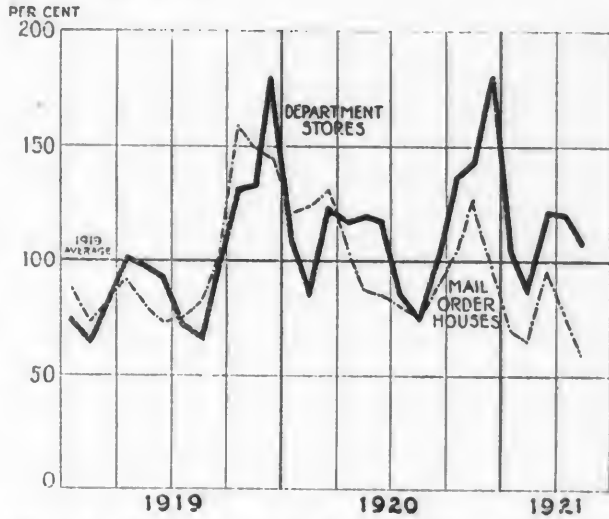
**Retail Trade**

The dollar value of retail sales by 45 firms, operating 58 representative stores in this district, showed a fall of 10 per cent. during May, 1921, as compared with sales during May, 1920. However, the number of transactions was about 10 per cent. greater and when price changes are taken into consideration it is clear that the volume of merchandise distributed over the counters continues to be larger this year than last. The amount of the average sale declined from \$3.56 in May, 1920 to \$3.11 in May, 1921, a reduction of about 13 per cent.

Sales by department stores in New York and Brooklyn showed a larger fall than stores elsewhere in this district as indicated by the detailed statement at the foot of this page.

Sales by stores that sell apparel exclusively and by the apparel sections of department stores show a small increase in sales during May as compared with last year. Demand for cotton and silk cloth, notions, and patterns is larger this year than last, indicating that more women are making their own clothes. Sales of housefurnishing goods are below those of last year.

Early in June sales continued slightly below those of last year, but toward the latter part of the month more active buying accompanied the first hot weather of the summer and the beginning of the vacation period.



Sales of 36 Department Stores in the Second District and 3 Leading Mail Order Houses Doing a Country-Wide Business, Expressed as Percentages of Average Sales in 1919

The value of stocks on May 31 was about 17 per cent. below stocks of the same date last year, due principally to the price decline rather than to smaller physical inventories.

Merchants are placing orders for fall with greater confidence and have contracted for their normal requirements in those primary markets in which they believe price adjustments have been nearly completed.

The diagram on this page shows the fluctuations in department-store sales in this district as compared with sales of three important mail-order houses operating throughout the country. The larger percentage of decrease in mail-order sales is attributable largely to the diminished purchasing power in rural communities, because of the lowered prices of farm products. Figures upon which the diagram is based are reported to this bank each month in actual dollar values.

**Sales and Stocks of Department and Apparel Stores**

Month of May, 1921 (45 Firms Reporting)	New York and Brooklyn	Buffalo	Newark	Rochester	Syracuse	Elsewhere in Second District	Apparel Stores	Entire Second District
Per cent. change in net sales during May, 1921, compared with net sales during May, 1920.....	-13.7	+ 0.4	- 0.2	- 2.2	- 3.9	- 9.9	+ 2.7	-10.0
Per cent. change in number of transactions during May, 1921, compared with number of transactions during May, 1920.....	+12.4	+13.5	+ 1.6	.....	.....	+ 8.2	+ 8.6	+10.4
Per cent. change in net sales from January 1 to May 31, 1921, compared with net sales during corresponding period in 1920.....	- 8.2	+ 5.1	- 2.5	+ 9.1	+ 5.2	- 4.6	+ 6.2	- 4.3
Per cent. change in stocks at close of May, 1921, compared with stocks at close of May, 1920....	-16.7	-10.4	-25.8	-20.2	-13.6	-10.0	-17.3	-17.3
Per cent. change in stocks at close of May, 1921, compared with stocks at close of April, 1921....	- 1.9	+ 0.3	+ 0.2	- 6.0	- 2.1	+ 1.6	- 7.7	- 2.1
Percentage of average stocks at close of January, February, March, April, and May, 1921, to net sales during those months.....	325.3	352.6	340.4	392.4	446.5	482.2	197.7	326.5
Percentage of outstanding orders at close of May, 1921, to total purchases during calendar year, 1920	5.8	5.5	4.5	5.3	...	7.1	9.5	6.2

## Collecting Checks Under the Federal Reserve System

**B**ROADLY speaking, the Federal Reserve Act of 1913 attempted to do for the check currency of the country what the National Bank Act of 1863-4 and supplementary legislation did for the bank note currency of the country, namely, to make it circulate at par. While, of course, Congress did not attempt to insure the goodness of individual checks as it did the goodness of National bank notes, it eliminated a serious obstacle in the way of the direct and economical settlement of business transactions. This was a matter of increasing importance because in the fifty years which had elapsed since the passage of the National Bank Act more and more of the country's financial settlements were being made by check, and hand-to-hand currency was being more and more restricted to minor payments.

Just as in 1863 the notes of most country banks circulated at less than face value, so in 1913 the checks of most country banks and some city banks were paid at less than face value. These deductions, known as exchange charges, were explained on the theory that sometimes currency might have to be shipped in remitting for checks presented for collection.

Besides being an element of expense to business, exchange charges were the direct cause for the development of an indirect method of collecting checks. These exchange charges varied in amount in different localities, and banks having checks to collect on points where exchange charges were high, sent them to banks in other towns where checks were received at par or at a low rate of exchange; these banks sent them on to other banks until at last they were presented for collection at the banks upon which they were drawn. Thus exchange charges operated like mountains in the path of a river, forcing it to take a roundabout course, instead of a straight route to the sea.

Obviously, the time taken in collecting checks was unnecessarily extended, which meant that the period during which funds were unproductive was unnecessarily protracted. The loss of interest involved, and the exchange charges deducted, amounted to a considerable annual tax upon business, paid sometimes in money, and sometimes by maintaining balances large enough to take care of the loss.

The Federal Reserve Act seeks to eliminate exchange on checks presented by the Federal Reserve Banks. This permitted direct collections. All member banks may if they wish send checks on other member banks, or on most non-member banks, to the Reserve Bank for collection, receiving credit for them according to a published time schedule. The Reserve Bank generally sends such checks as are drawn upon banks in its district to those banks individually, and sends to other Reserve Banks for collection the checks drawn upon banks in other districts.

The process of settlement upon the books of the Reserve Bank is simple. A bank, upon receiving from the Reserve Bank a letter containing checks presented for collection, remits in currency or by check upon its balance at the Reserve Bank, or upon a suitable correspondent bank.

Last month in the REVIEW the system by which balances are transferred between Reserve Banks over private telegraph wires was described in detail. That system is essential to the smooth working of check collections between banks in different reserve districts, and was

established primarily for its furtherance. A bank in Oakland, for instance, remits to the San Francisco Reserve Bank for checks which paid debts in New York just as it remits for checks which paid debts in Sacramento. But in order for the New York Reserve Bank to settle with its member, the San Francisco Reserve Bank transfers each day over the telegraph amounts representing checks which the New York Reserve Bank sent to it for collection.

On the whole, the new system cuts about in half the time required for collecting the country's checks. Furthermore, checks on over 90 per cent. of all banks in the country are now payable at full value. Taken together, these two changes have resulted in a great saving to the business, industrial and agricultural interests of the country. It is true that time and distance, which are the warrant for collection charges now made by the banks, as distinguished from the so-called exchange charges, have not been eliminated, but with the reduction of the time element, collection charges have been much reduced. Formerly New York Clearing House banks charged one-quarter of one per cent. for collecting checks drawn upon Pacific Coast banks. This charge, which a customer paid for the immediate use of the money represented in a check, and therefore an interest charge covering the time required to collect it, has now been reduced to one-tenth of one per cent., and collection charges on other points have fallen accordingly.

A very large proportion of all the checks circulating in the country is handled by the Federal Reserve Banks. In 1920 the twelve Reserve Banks handled for collection 447,000,000 checks at a value of \$157,000,000,000. The rapid growth of the system is indicated by the figures in the following table, which show the average monthly volume of checks handled by the New York Reserve Bank.

Date	Average Number of Items Handled per Month	Average Amount per Month
1915 .....	180,316	\$191,000,000
1916 .....	570,114	430,000,000
1917 .....	1,617,348	1,675,000,000
1918 .....	2,945,800	3,548,000,000
1919 .....	6,205,326	4,712,000,000
1920 .....	7,253,035	4,610,000,000
1921* .....	7,993,226	3,424,000,000

\*January to May.

To carry on this work requires a force in the transit department of the New York Reserve Bank of about 400 persons, who handle on the average about 275,000 checks a day, and on some days many more. The work goes on day and night, with three shifts of employees. Checks are received from the banks through a special station of the Post Office established in the Reserve Bank, and are then sorted, recorded, and sent on to their destinations, either other Reserve Banks, local clearing-houses, or individual banks, as the case may be. In spite of the great volume of checks handled, differences seldom amount to more than a few cents on a day's transactions.

With the establishment and operation of this collection system one of the major purposes of the Federal Reserve Act is fulfilled.