Business Conditions

Second Federal Reserve District

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

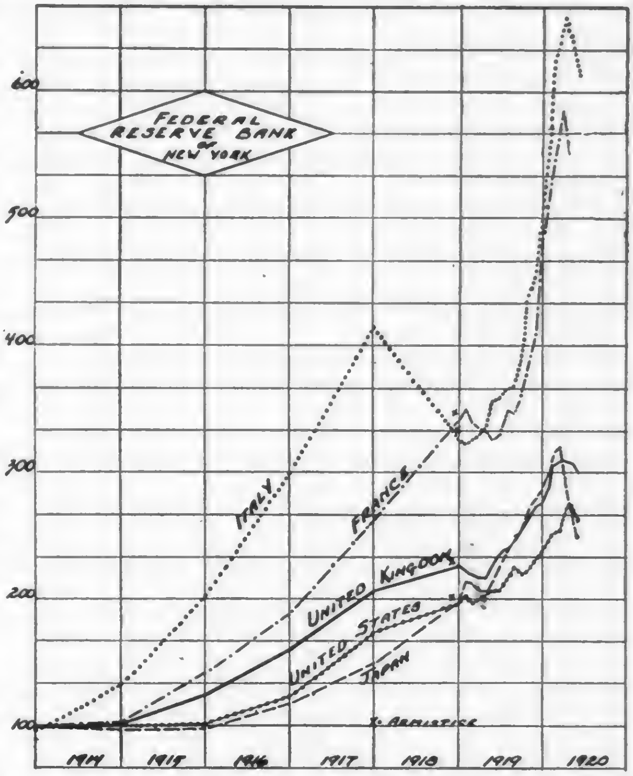
July 31, 1920.

The Credit Situation During the past thirty days the slight declines in the various price indices which were noted in last month's report have made further progress, not only in this country, but abroad as well. There has also been a perceptible lessening in the volume of credit, as reflected in the total earning assets of the Federal Reserve Banks, which declined $104,770,000. from July 9 to 23, increasing their reserve ratio from 43.1 per cent. to 44.4 per cent.

It is not improbable that the diminished excess of exports over imports in June—about $78 millions compared with $200 to $300 millions in recent months—may have had its influence in the recent tendency toward lower prices in a number of important commodities. These price declines, which have been confined to certain industries, are evidence that for the time being at least the supply of goods within those industries equals or exceeds the demand. When this equilibrium is reached, such runaway prices as under-supply makes possible usually disappear rapidly.

It is too early to feel at all sure that these price recessions mark the beginning of permanent price deflation, which all the world so earnestly desires. But the fact that the movement seems to be general throughout the Allied countries, in all of which determined efforts for deflation are being made, gives reason to hope that although further increases may yet occur in industries where there is still under-supply, nevertheless, generally speaking, the peak of prices has been reached.

While the price recessions in certain industries have produced dullness or inactivity, general production, on the other hand, in spite of strikes and traffic troubles, has continued at a very high level, if not at the highest ever known in this country. This is reflected in the enormous volume of freight traffic, which for the past six months appears to have equaled, if not slightly exceeded, the record movements of 1917 and 1918.



Movement of Wholesale Prices in Five Leading Countries. Prices for 1913 taken as a base of 100.

Under the influence of dearer money, and of the expectation of lower commodity prices which are just now beginning to take shape, the speculation for the rise in land, commodities and securities, which was proceeding so violently last autumn and which continued with lessened intensity throughout the winter, seems, in this district at least, to have come to a standstill. This, however, does not mean that there is not still carried on bank credit a large, though lessening, volume of commodities, real estate and securities exerting a measurable influence on present credit pressure and the continued high cost of living.

In spite of the recent movements in prices and credit, past experience indicates that additional credit will soon be required for the heavy seasonal demand of autumn. Happily there is no longer reason for the financial apprehension with which bankers used to approach each autumn in pre-war days. For instead of the stone wall of rigid reserves and fixed currency volume, there is now standing back of all member banks a reservoir of credit and currency whose elastic and prompt response to the requirements of the country have been thoroughly tested. The fact that for many months the Federal Reserve Bank has been exerting pressure in order gradually to reduce the volume of credit will not prevent it from extending additional credit whenever the necessities of industry, commerce and agriculture require it. But this potential elasticity should not lead to any impression that credit is likely in the near future to be easier or available in additional volume for other purposes. The table below shows the changes in the volume of credit in the banks which report each week to the Federal Reserve Board.

Federal Reserve Bank Earnings

The earnings of the Federal Reserve Bank of New York for the first six months of the year were considerably larger than those for the corresponding period last year. After paying the legal semi-annual dividend of 3 per cent. setting aside reserves against contingencies, and adding $6,200,000 to its surplus, as provided by law, there remained $14,900,000, which will be paid over at the end of the year as a franchise tax to the United States Treasury.

These continued large earnings have called forth a large number of comments to the effect that the Federal Reserve Banks were profiteering and that in view of their earnings they should lower their rates. One critic quite seriously pictured the Federal Reserve System as manifesting "that same thirst for power that is characteristic of a carnivorous beast when it has tasted blood for the first time" and announced that its management had "come to the conclusion that these institutions should be money-making concerns and that they should see how much profit they can show instead of being used for the purpose of rendering a service to the community." While most of the criticisms are not as fantastic as the foregoing, they evidence rather generally a lack of understanding of the policies and workings of the Federal Reserve Banks. This is not unnatural, since we are still relatively unfamiliar with the operations of a bank of issue and rediscount, which are well understood in most other countries. A few words about the operations of this bank as they are reflected in its earnings may therefore be appropriate.

The Federal Reserve Banks were created to provide elastic credit and currency, which would expand or contract in accordance with the requirements of industry, commerce and agriculture. They were also expected measurably to control and regulate the volume of credit so that credit conditions might be as stable as possible. They came into existence after the European war had begun, and upon America's entrance into the war they were called on to assist in creating the immense volume of additional credit required by the financing of the war. Their effective response to the call not only made possible the prosecution of the war but enabled manufacturers, merchants and farmers confidently to continue their affairs.

When the peak of the Government debt was passed last Autumn and there was no necessity for further credit expansion on account of Government opera-

VOLUME OF BANK LOANS

(In millions)

Date	Reporting Banks in New York City: Rediscounts with F. R. Bank	U. S. Securities and War Paper	Total Loans and Investments Including Foregoing	Reporting Banks in All Districts: Rediscounts with F. R. Banks	U. S. Securities and War Paper	Total Loans and Investments Including Foregoing
1920						
July 23	372	883	5,684	....	....	......
July 16	366	903	5,684	1,268	2,280	16,978
July 9	385	860	5,664	1,315	2,210	16.901
July 2	377	879	5,683	1,314	2,241	16,929
June 25	341	900	5,694	1,238	2,298	16,971
April 16	320	1,006	5,783	1,169	2,570	17,186 (high)
1919						
Oct. 10	159	1,550	6,010 (high)	468	3,500	15,944
July 18	131	1,468	5,513	350	3,600	14,841

Between July 18, 1919, and July 23, 1920, the number of reporting banks in this city increased from 71 to 72 and throughout the country from 769 to 814.

tions, the Federal Reserve Banks took steps towards inaugurating gradual deflation. They adopted the method of bringing about a reduction of the credit volume which had been tried and tested in other countries, i. e. increased discount rates. These were advanced, step by step, from the 4¾ per cent. rate prevailing in October to the 7 per cent. rate which was established in June. The higher rates resulted in larger earnings, which in turn raised the perfectly natural question: Are the Federal Reserve Banks profiteering?

It is one of the ironies of the war that the one bank not organized for profit should be making larger profits than any other bank in the country. Federal Reserve Bank profits come from the loans which they make to their member banks to enable them to furnish credit to their customers. But, as the Federal Reserve Banks are an agency of the people to maintain an elastic credit and currency system and to steady credit, the law provides that after paying dividends of 6 per cent. to the member banks, which are their only stockholders, and after accumulating a reasonable surplus, the Federal Reserve Banks should return the balance of their earnings to the people as a contingent franchise tax. Thus, the people are the residuary legatees of Federal Reserve Bank operations; and the Treasury's use of the money thus returned is restricted to the purchase of government bonds or placing additional gold behind the greenbacks.

Federal Reserve Bank earnings are a reflection of the existing degree of credit and price inflation. In times when credit and prices are normal Federal Reserve Bank earnings will probably be very small. The higher discount rates, established to stimulate deflation, are at present increasing these earnings, but as the volume of credit grows less these earnings will decrease proportionately. It is not at all unlikely that if no attempt to stimulate deflation had been made and the relatively low rates prevailing last Autumn had been continued, the earnings at the lower discount rates might conceivably have equalled those at present produced by the higher rates, so fast was the general expansion and demand for credit then proceeding. But the continuance of last Autumn's rate of expansion to the present time would doubtless have resulted in far higher commodity prices and very weak financial conditions instead of the present sound banking position.

Reserve Percentage Federal Reserve Banks and Bank of England

An impression prevails that the reserve percentage of the Bank of England runs much lower than the comparable percentage of the Federal Reserve Banks. This impression is due to the different bases used by the two systems in arriving at the percentages published. On the contrary a close parallel is observable when the same methods of figuring reserves are used. The published reserve percentage of the Federal Reserve System is the ratio of gold and lawful money to net demand deposits and Federal Reserve notes in circulation. In the Bank of England deposit and note liabilities are maintained in separate departments. Notes, which are the liability of the Issue Department, are backed pound for pound by gold, with the exception of £18,450,000 which are backed by government and other securities. Deposits, which are the liability of the Banking Department, have a much more limited reserve of gold (made up of bullion, coin and Bank of England notes) and silver coin. Thus on June 30 Bank of England notes in circulation had a gold reserve of about 84 per cent. and deposits a reserve of 8.5 per cent. By combining them the reserve was 38.2 per cent. comparing with a reserve of 43.6 per cent. for the Federal Reserve System. The following table shows comparable reserve percentages in 1920:

Date	Federal Reserve System	Bank of England Comparable Figure	Bank of England Published Figure
Jan. 28	44.5	41.0	19.4
Feb. 25	42.5	38.5	17.0
March 31	42.7	46.3	18.5
April 28	42.4	45.3	16.5
May 26	42.7	49.1	16.5
June 30	43.6	37.8	8.5

Note Circulation

Heavy expenditures during the first week of July, as usual during holiday periods, created an increased demand for circulating currency. To meet this demand Federal Reserve notes in circulation in this district increased rapidly, reaching the high point on July 6, at $886,000,000, an increase of $32,000,000 from June 18. The decline was almost as rapid, however, and the amount in circulation on July 22 was $842,305,000, a decrease of $12,500,000 from June 18. A recent careful estimate gives the present circulation of American currency in Cuba as about $125,000,000, of which $100,000,000 is in the hands of the banks and the remainder in general circulation. This currency consists largely of Federal Reserve notes, of which large amounts have been withdrawn from this bank and from the Federal Reserve Bank of Atlanta.

Commercial Paper Demand for commercial paper has broadened during the past thirty days, and dealers report a good distribution with country banks. The local market also became a little more active, though purchases were confined almost entirely to a few of the trust companies and to banks buying for correspondents. But due to the wider sale of paper in the country districts, dealers report June sales larger than May, and some report sales running ahead of last year at this time. In general, the eastern section of the country has provided the best market, though there is a fair scattering of sales in other districts. Increased buying is attributed partly to a freer supply of funds after the mid-year financial transfers, and partly to the high offering rates. These ruled principally at 8 per cent., with less well known names quoted at 8¼ and in occasional instances at 8½ per cent. Supply of paper was plentiful and included many prime names, but dealers say that borrowers' demands have not been pressing as the high rates act as a strong deterrent.

The Bill Market The bill market has been quite active, due largely to a strong demand for prime New York bills, as the demand for other names was only fair. Distribution was in good volume, both locally and with out-of-town banks. As a result of the difficulty in obtaining prime New York bills, there developed towards the close of the period a larger demand for acceptances of out-of-town banks. Rates continued unchanged; dealers bid 6⅜ per cent. for prime New York 90-day bills, which they offered at 6¼ per cent. The minimum purchase rates of this bank continued at 5¾ to 6 per cent. for endorsed bills.

Gold Movement From June 10 to July 10 gold imports were $24,470,000; exports $12,940,000, a net gain of nearly $12,000,000. The total excess of imports for the fourteen weeks, April 1 to July 10, was about $33,200,000, in comparison with a monthly average export excess of over $40,000,000 during the ten preceding months, that is since June, 1919, when the embargo was removed.

Since July 1 another shipment of gold for the British Government amounting to $6,500,000 has been received from Hong Kong, and about $5,500,000 of Transvaal gold bought in the London market has been imported by private bankers here.

The release by Argentina of her credit balance with the Federal Reserve Banks, thereby obviating the export of gold to the United States, has been continued.

Stock Market For a brief period early in July the stock market became more active than at any time since the latter part of May, and prices were even buoyant. This movement appeared to be based principally upon a feeling that with the passing of the July 1 payment period the money market would be more favorable to higher stock prices. The failure of these expectations to be realized, together with reports of threatened plant shut-downs as a result of fuel and transportation shortage, and evidence of slackening demand for certain commodities, caused a sharp reaction.

Railroad stocks were quite active and strong, apparently influenced to a large extent by the expectation of an early rate decision by the Interstate Commerce Commission. The average price of twenty-five railroad issues rose roughly 4 points, and in the market's subsequent weakness these issues held their advances fairly well. A similar average of industrial stocks advanced 4 points, but broke sharply to a net loss of about 2½ points for the period.

June stock sales totaled 9,000,000 shares, the smallest total for the month since 1914, a decrease of 7,200,000 shares as compared with May and of 23,600,000 as compared with June of last year. Total sales for the half year were slightly below the first six months of 1919 but in excess of the corresponding period in other years since 1906.

Stock Exchange Money Rates The stock exchange money market has continued decidedly tense. Through the final ten days of June high call money rates reflected the proximity of July 1 disbursements, and during the period of the transfers renewals rose to 10 per cent., the highest in four months, while new loans reached 15 per cent. For a few days early in July, rates showed a relatively easier tendency. But that the situation, fundamentally, had not changed was shown by the readiness with which rates rose to 10 and 11 per cent. on slight variations in supply and demand. Little activity was reported in time money, and rates were mostly nominal at 8½ to 9 per cent., according to collateral.

Bond Market A fair volume of investment buying developed in the bond market following the close of the half year. Inquiry was chiefly for the recently offered high yield railroad and foreign government issues, and many bonds in these groups rose from 2 to 3 points above the original sale price. There was also a moderate demand for the seasoned, low-interest securities, with the result that practically all groups average higher than a month ago.

Of the underlying corporate bonds high-grade railroad issues yielding around 6 per cent. had the greatest strength, shared, but to a less degree, by railroad issues of a more speculative character. Industrial bonds were rather sluggish and averaged only slight net changes. Public utilities issues were steadier.

In foreign government securities, Swiss 8s reached a high point of 103½, Belgian 7½s rose to 101 as compared with an offering price of 94¼, Anglo-French 5s were firm, and United Kingdom 5½s and Paris 6s, due 1921, reached new high levels for the year.

Bond sales on the Stock Exchange during June were $320,000,000, a considerable decline as compared with April and May, but much above June of last year. Of this total 80 per cent. was in Liberty bonds.

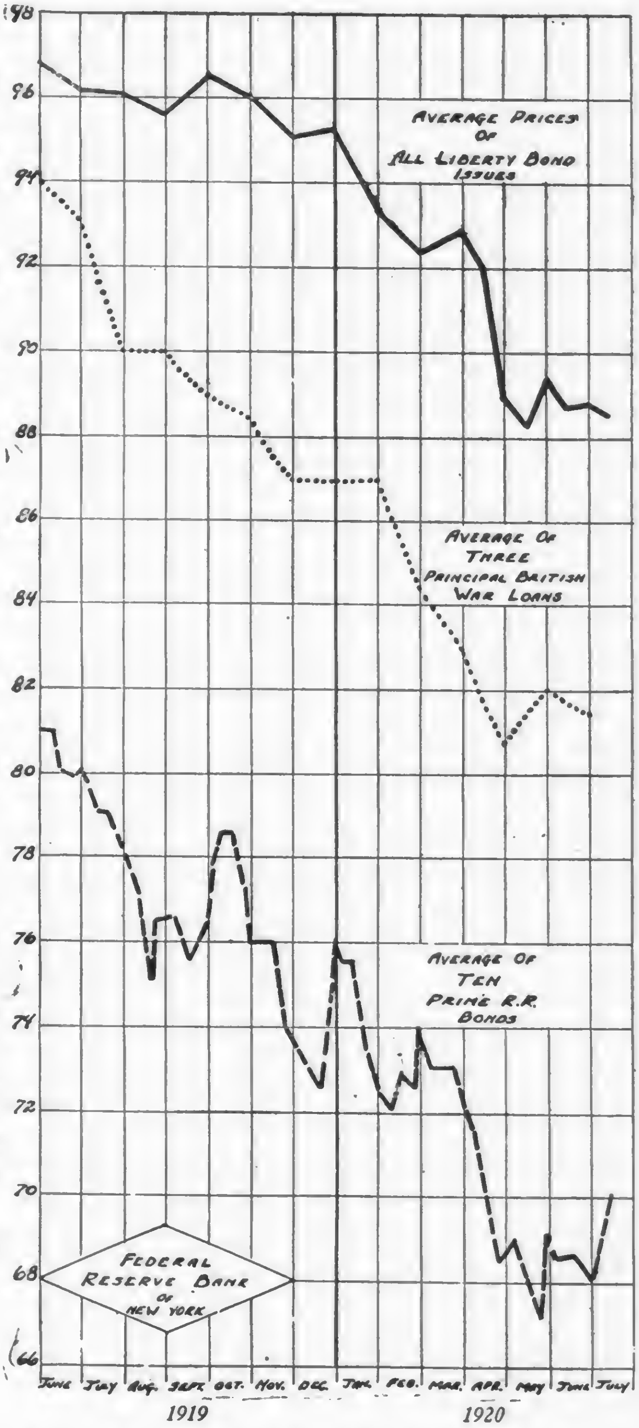
Government Bonds Liberty bond prices in the last 30 days maintained a fairly consistent level, though the tendency at times was slightly downward. This became more marked in the final ten days of the period, but there was no important pressure and a loss of a point by the 3½s proved to be the maximum net decline in the list. During June, sales totaled $257,000,000, as compared with $299,000,000 in May when trading was very heavy.

The decline in Liberty bonds in the last year from about 97 on the average for all issues to slightly below 89 has had its counterpart not only in the decline of high grade railroad bonds on this market, but in the decline of the three principal issues of British war loans. Bond prices commonly reflect the demand for money, and as money rates rise bond prices tend to decline and bond yields to advance. The striking parallel between these three widely different groups of bonds on two different markets is shown in the accompanying chart.

Total sales of Liberty and Victory bonds on the New York Stock Exchange by months from January 1 to July 1 appear in the following table:

January	$292	Millions
February	232	"
March	224	"
April	269	"
May	299	"
June	257	"
Six months	$1,573	"

During this period, sales of pre-war Government issues aggregated $162,000.



Movement of American and English War Bonds, and representative Railway Bonds, from June, 1919.

New Financing The June output of new corporate securities increased slightly over May, to a total of $266,000,000. But for the first time since the armistice a decline appears in the figures for a current month as compared with the corresponding month in the preceding year. This decrease more than offset additional foreign government financing here by Belgium, amounting to $50,000,000. Industrial stocks continued to preponderate, with nearly 50 per cent. of the total. Railroad notes and bonds aggregated $50,000,000, or nearly 20 per cent. of all issues. Of total June financing it is estimated that less than 20 per cent. was used to refund or pay off maturing obligations. There was the usual increase in offerings in July and some large issues were readily absorbed, including a $25,000,000 loan to Switzerland bearing a coupon rate of 8 per cent. and offered at par. Despite the demand shown for these issues further financing was slow in appearing. Apparently high interest and high cost of materials substantially cut down borrowing operations.

Since the first of the year new financing has reached the record breaking total of $1,800,000,000, an increase of $617,000,000 as compared with the same period last year. Railroad security flotations since January 1 are estimated at $278,000,000 notes and bonds, the majority maturing in ten years.

Foreign Exchange The European exchanges were dull and inactive throughout the greater part of the 30 days ended July 20, and gave the appearance of waiting for the outcome of the Spa conference. At times considerable weakness was displayed, especially during the last week, and the principal exchanges closed the period at a lower level than on June 20. A sharp break in sterling, notwithstanding the arrival of another shipment of gold from England, carried the rate to $3.83 on July 19, 16 cents below that on June 21, and 23 cents below the highest level of the year, which was touched early in April. The break followed liberal offerings of commercial bills and reports that a serious disagreement had arisen at the Spa conference. The sudden increase of bills, part of them grain bills, was largely to cover shipments of freight which had been held up by strike conditions in this port.

Francs and lire have been very erratic with moderate trading. Both have been under considerable pressure, and following the action of sterling, lost ground during the past week. The break in lire was somewhat precipitate and the rate reached 5.78, a loss of 28 points from the closing rate on June 21. German marks held firm around 2.60, with transactions light.

Due to the decrease in Argentina's export trade, principally in hides, leather and wheat, exchange on that country has declined from 95.6 to 89.6 during the last 30 days. As a result of the adverse exchange the Argentine Government has released credit which has been on deposit in this country. With a steadier silver market the Far Eastern exchanges have changed little, with the exception of Indian rupees, which declined from 39¼ to 35⅜ and then recovered to 36⅜ on the 19th.

Rates during the current period are given below.

Foreign Trade Heavy imports, exceeding both in dollar value and relative volume the totals of all previous months, are shown by the June foreign trade figures of the country. In dollar value imports for

FOREIGN EXCHANGE RATES

	JUNE 26		JULY 3		JULY 10		JULY 17		Percentage of depreciation from par to low for week of July 17
	High	Low	High	Low	High	Low	High	Low	
England	3.99⅛	3.95⅞	3.96¾	3.94¼	3.95	3.93½	3.94⅝	3.86⅞	20.5
France	8.61	7.99	8.52	8.18	8.55	8.30	8.44	8.22	57.4
Italy	6.21	6.05	6.18	5.89	6.18	6.03	6.02	5.88	69.5
Spain	16.75	16.64	16.68	16.40	16.40	16.20	16.13	16.04	16.9
Argentine	42.10	41.50	41.90	41.50	41.75	41.25	41.375	41.125	3.1
China (Hongkong)	75.75	72.75	75.50	73.75	74.00	72.00	74.50	72.75	—x
China (Shanghai..)	105.00	99.00	105.50	103.00	104.00	103.00	104.50	102.00	—x
Japan (Yokohama)	51.25	51.25	51.25	51.25	51.375	51.25	51.50	51.375	3.1*
Germany	2.74	2.65	2.65	2.59	2.66	2.62	2.63	2.54	89.3
Switzerland	18.21	18.15	18.15	18.08	18.02	17.95	17.95	17.67	8.4
Sweden (Stockholm)	21.93	21.80	22.08	21.90	22.15	22.00	22.10	22.00	17.9
Holland	35.937	35.625	35.50	35.25	35.375	35.25	35.25	34.375	13.2
Belgium	8.73	8.33	8.87	8.63	9.03	8.91	9.03	8.81	54.4

*Premium
xSilver exchange basis.

the month increased $122,000,000 over the May total to $553,000,000. Not only is this the highest yet reported, but even after allowance has been made for seasonal variation and the rise in prices it is slightly in excess of the record heavy volume attained last September. Exports in June declined in dollars, from May, $108,000,000 to $631,000,000. Applying the same corrections to these figures, it appears that exports are tending slightly downward.

Conflicting tendencies in the export market are shown by the orders now coming to American exporters from abroad. There is a waning demand for textiles, dry goods, clothing, many kinds of chemicals, and generally of all products in which reactionary price movements lately have become marked. Light leathers and shoes have been very quiet for several months, but there is still a demand for heavy sole leathers, particularly from England and France. Exports of raw cotton continue to reflect the decline in Japanese buying and the more cautious attitude which British and Continental mills adopted as a result of an apparent slackening in the market for cotton goods; shipments during June were only 241,450 bales, as compared with 363,104 bales during May and 693,879 bales during June last year.

As opposed to these softening tendencies a steady to strong demand is reported for materials which tend to increase productive capacity. Orders for electrical equipment are heavy, and manufacturers foresee a widening field in connection with large hydro-electric power and railway electrification projects in Italy, France, Scandinavia and South America. Railroad supplies are urgently needed and there is large buying of construction supplies from the East Indies, British India and South America. Materials wanted are construction machinery, heavy hardware, iron and steel, and cement. Demand for machinery has declined in Japan, but European countries continue to buy in large volume.

The Japanese crisis and a falling off in Chinese purchases apparently have caused a net decrease in iron and steel export orders. Though cancellations have diminished, materials are still being turned back as letters of credit expire. So far re-sales have been readily effected. There is some difference of opinion among exporters as to the steel market elsewhere. Some report that in Europe and South America the pressure to buy there is less. Some competition in South America from British and Belgian steel producers is reported, but it is said to be not yet an important factor in most materials.

What amounts almost to an embargo on coal exports, by the priority rulings of the Interstate Commerce Commission, became effective June 24, though some coal is still going out. Demand for coal from Continental Europe amd South America has been much in excess of supply. Export prices at Hampton Roads have been ranging around $16.00 a ton, an advance since the first of the year of nearly $6.00 a ton. Bituminous shipments from January 1 to June 1 totaled 8,751,000 tons, a heavy increase as compared with last year but only slightly more than 4 per cent. of production during the same period.

There is a heavy grain movement overseas, but demand for most other foodstuffs is relatively light. The copper export market became somewhat more active owing in part to purchases under the French credit arrangement. Demand for American automobiles and automotive products is reported still strong.

Foreign Bank Rates

Official bank rates in the leading financial centers have remained unchanged. Private rates in London continue at 6½ to 6-11 16 for 60 to 90 day bills, and call money has ranged between 4¾ and 6¾ per cent. during the past 30 days. British railway shares were reported selling at low records in June, and yielding as high as 9 per cent. The following are the present bank rates in financial centers:

	Rate	Changed
Bank of England	7	April 15, 1920
Bank of France	6	April 8, 1920
German Reichsbank	5	December 23, 1914
Bank of Italy	6	May 13, 1920
Bank of Japan	8	November 18, 1919

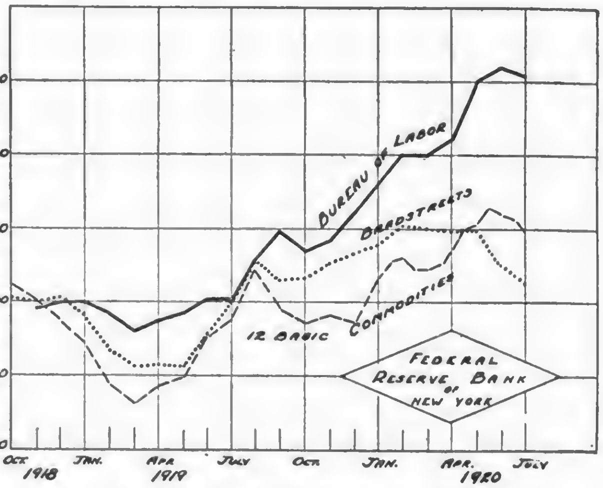
Production and Trade in England

Production in England still lags, and according to an estimate made by Reginald McKenna, chairman of the London Joint City and Midland Bank, is 80 per cent. of what it was before the war. The output of pig iron and steel in the United Kingdom, while larger than a year ago and in May reached the highest volume for any month since the armistice, remains somewhat below the 1913 rate of production. The June output was 726,000 tons of pig iron and 745,000 tons of steel. The present rate of coal production would indicate nearly 250,000,000 tons for the year 1920, as compared with 287,000,000 tons during 1913, the record year.

The textile industries have felt a reaction for some weeks, due to a pause in buying activity. Demand has been on a reduced scale in both home and foreign markets and cancellations of orders are reported from the Far East. Reports of crop conditions in May were highly favorable and the British Prime Minister has complained that agriculture is the only one of the great industries yielding a greater output to-day than before the war. Unemployment in England, according to trade union figures, steadily decreased from 3.2 per cent. in December to 0.9 per cent. in April, but rose to 1.1 per cent. in May.

England's unfavorable balance of trade has been slightly reduced since the first of the year. The balance for the six months ended June 30 last, was £270,405,000 as compared with £326,850,000 for the first half of 1919, but this change was due mainly to the large increase in export values. The actual tonnage of exports of the United Kingdom during the first five months of 1920 was practically the same as during the corresponding period of 1919, and only half that of the corresponding period of 1913. The greater part of this decline is due to decreased exports of coal and coke, though there was a decrease also in the tonnage exports of nearly all commodities. Although there was a decrease in the value of imports from January to May, the actual volume has shown an increase from 3,316,000 tons to 3,878,000 tons, due almost entirely to increased imports of raw materials and unmanufactured articles.

Commodity Prices There is continued evidence in the various indices that prices the world over are tending to decline, although very slightly in this country. The Bureau of Labor index of wholesale prices for June went down about 1 per cent., from 272 to 269—the first decline since September, 1919. The declines were in food and clothing, but fuels and lighting and house furnishing goods continued to advance, the latter rising from 339 to 362. The index of 12 basic commodities prepared by this bank shows a decline from the high point of 112.9 on May 17 to 108.8 on July 19. Both Dun's and Bradstreet's indices continue downward. Dun's had declined approximately 1 per cent. on July 1 from the high point of May 1, and Bradstreet's 7.2 per cent. from the high point of February 1. Thirty-seven articles making up Bradstreet's index moved lower, while 23 advanced and 44 remained unchanged. It is of interest to note that while the Bureau of Labor index rose 32 per cent. from the armistice to the recent high point, the other indices of commodity prices in this country rose only 10 to 15 per cent.



The movement of three indices of wholesale price changes from the Armistice. Prices for November, 1918, taken as a base of 100.

Both the Economist and Statist indices of English prices recorded further declines in June. The Economist index dropped 4.3 per cent., as compared with small declines in May and April. Cereals and meats were an exception to the general trend. French prices turned downward in May for the first time since August, 1919, with a decline of nearly 6 per cent.

Both Italian and Japanese prices continued on the downward course in June, the former decreasing 6.8 per cent. and the latter 8.82 per cent.

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

DOMESTIC AND FOREIGN PRICE CHANGES

Indices	Latest Available	Preceding	Per Cent. Change	Highest	Per Cent. Decline from High Point
Bureau of Labor	269 (June Average)	272 (May Average)	—1.10	272 (May Average)	1.10
This Bank's Index (12 basic commodities)	108.8 (July 17)	108.5 (July 12)	.....	112.9 (May 17)	3.63
Dun's	260.4 (July 1)	262 (June 1)	—0.61	263 (May 1)	.99
Bradstreet's	19.35 (July 1)	19.87 (June 1)	—2.62	20.86 (Feb. 1)	7.24
Economist (British)	7847 (June 30)	8199 (May 31)	—4.29	8352 (Mar. 31)	6.05
Statist (British)	300 (June)	305 (May)	—1.64	313 (April)	4.15
French	550 (May)	584 (April)	—5.82	584 (April)	5.82
Italian	614 (June)	659 (May)	—6.83	679 (April)	9.57
Japanese	248 (June)	272 (May)	—8.82	321 (March)	22.74
Canadian	258 (June)	263 (May)	—1.90	263 (May)	1.90

Manufacturing In this district, generally speaking, manufacturing has continued at a remarkably high level despite the dullness in the textile and leather markets. Some industries showed substantial increases over the preceding month. In the case of cereal mills and of manufacturers of beverages and canned goods, these increases were seasonal. But better traffic movement brought larger supplies of raw materials and enabled many factories, such as those making rubber goods, glass and pottery, to increase production.

Sugar refineries are working at high pressure, but some candy factories have slightly reduced their output. Manufacturers of tobacco products, due to the adjustment of labor troubles, are more active than a month ago. Jewelry manufacturers are busy and have a considerable volume of orders for articles for the Christmas holiday trade. Both they and manufacturers of silverware are only now beginning to catch up with the unusual demand of the past six months. Prices of silverware have recently been reduced as a result of the decline in bar silver. The amount of building under way has stimulated the production of lime, cement and cut stone, but shortage of coal and cars continues to prevent any great expansion in these industries.

One large woolen company shut down several of its mills in July for an indefinite period, and manufacturers of clothing, textiles, and furs are without the usual volume of fall orders. But in these trades the wave of cancellations current in the late spring appears to have passed, stocks of wholesalers and retailers have been partly liquidated, and a better feeling is reported.

Building It becomes increasingly evident that the real deterrent to housing construction is the scarcity of mortgage money to finance such projects. With other forms of investment offering equally high returns, in some cases with the additional advantage of being tax-exempt and without an equal element of risk, money is attracted elsewhere. Instances are cited of contractors who were promised funds several months ago now being unable to secure them. Funds supplied by insurance companies and similar organizations are inadequate to meet the demand, the bulk of which has hitherto been supplied by individuals and trust estates. This situation is aggravated, particularly in New York City, by the fact that industrial and business building, backed by stronger financial interests, is able to absorb more than its proportionate share of the small supply of materials and labor.

Compared with a month ago, building for residential purposes in the States north of the Ohio and east of the Missouri rivers has fallen still further behind requirements. Figures compiled by the F. W. Dodge Company for that section of the country show that contracts awarded for residential buildings declined from 3,217 in May to 2,692 in June, a loss of 525 which is only slightly less than the decline from 6,198 to 5,588 in the number of contracts awarded for all purposes. While contracts awarded for industrial and business construction declined slightly in number, the value of the June projects exceeded that of those for May. During the first half of 1920 contracts awarded for all purposes totalled $1,542,585,000 as against $983,520,000 in 1919. The actual building activity represented by this apparent increase is less than the figures would indicate, because of higher construction costs.

Iron and Metals Despite the immense volume of freight now being moved, car and coal shortage is still hampering the steel mills to such an extent that it is estimated that over 2,000,000 tons of finished materials are piled in yards throughout the country or loaded on cars awaiting shipment. The price of coke has risen to $18 and $19 a ton. Complaints are made by producers that the continuation to August 21 of the order restricting the use of open-top cars to coal-carrying will aggravate this congestion. The unsatisfactory conditions in the Youngstown and Pittsburgh districts have thrown some business to Eastern mills nearer their markets and therefore able to make some shipments by motor trucks.

Structural orders in June were for only 90,400 tons, a decline of 11 per cent. from May and only 50 per cent. of the country's shop capacity. However, the total tonnage placed during the first half of the year was 779,200 tons, or 72 per cent. of capacity, against only 323,900 tons during the first half of 1919. Pig iron production during June showed a daily average increase over May of 5,000 tons and the figure for the first half of 1920, 18,138,986 tons, was exceeded only during the years 1916 and 1917. Since June 15 the price of basic, valley furnace, has increased $2 a ton to $46, and Bessemer, Pittsburgh, $3 a ton to $47.40. Coke has increased from $2 to $3 a ton.

Purchases of copper for foreign interests continue good and domestic consumers are showing more interest, but the price continues firm at 19 cents. The lead and tin markets are quiet, with the price of lead slightly lower and that of tin 5 cents a pound higher than a month ago. Zinc is strong and higher than a month ago, due to the scarcity caused by the closing down of mines in the Joplin district.

Cotton and Wool At the close of the period heavy buying of cotton for July delivery carried the price to 42½ cents a pound, the highest price reached by that option thus far this year, an advance of $35 a bale in four weeks. This action appeared to be largely the result of speculative buying to cover short sales earlier in the month, but the advance was also stimulated by a similar advance in spot cotton, by reason of increased home and foreign demand from manufacturers, which carried spot cotton to 43 cents a pound, within ¼ of a cent of its recent record price. A factor of prime importance in these advances was the re-entrance of English trade buying in fair volume after an almost complete cessation of buying for over three weeks. It further appeared that the advance, particularly of spot cotton, was based to a large extent on the difficulty of securing deliveries by rail at present.

Prices for deliveries out of the new crop moved slightly higher during the period on reports of the spread of the boll weevil over much of the cotton belt on both sides of the Mississippi and to news of dwarfed plants due to the late season, as well as to labor scarcity which is preventing proper cultivation.

Manufacturing has been increasing slightly during the period as evidenced by the increased consumption shown in the Government's June report. Domestic mill takings in June increased 6 per cent. over those in May, whereas there is usually a seasonal decline of about 4 per cent. in June. Exports, on the other hand, were particularly small. The recently improved foreign demand, however, will probably show in the export figures in the near future.

The raw wool market has continued narrow and iquet, with little expectation of renewed activity until after the completion of the present liquidation of retail stocks of clothing and until the woolen mills begin receiving orders in sufficient volume to warrant a resumption of full time activity.

Failures The long period of relative immunity from commercial failures was broken in June. The liabilities in this district amounted to $16,218,230, a larger sum than the combined figures for the preceding months of 1920 and four times as large as in June of last year. The number of failures was 164 in June, against 133 in May.

In the United States as a whole, failures of manufacturing concerns having liabilities in excess of $100,000 were greater in number than in any June since 1912. Failures of trade concerns involving liabilities in a like amount were more numerous than in any June since 1915. The total number of failures in the country for the entire half-year, however, was the smallest for any corresponding period since 1881. Liabilities were substantially more than in the first six months of 1919, but less than in preceding years.

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

	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	4,033,003
April	117	107	2,865,153	4,365,258
May	133	93	2,413,591	3,194,187
June	164	104	16,218,230	4,040,301
	731	642	$29,985,168	$21,577,495

Collections Slight improvement in collections has occurred recently, but they were only slow to fair in New York City and vicinity during the past month although better in the Albany and Buffalo regions. Large houses are tightening up on accounts which they had been permitting to run along. Smaller dealers who had not been as lenient, are pressing their claims more urgently.

The general slowness in meeting obligations is attributed to transit congestion, to the dullness in many lines of trade and to the credit stringency. Applications for renewals have been somewhat heavy from houses dealing in textiles and furs, and payments by millinery houses and by manufacturers of waists and dresses are slow. Collections are reported good, however, by dealers in pianos, tobacco products and a few other articles. Retailers are slow to open new charge accounts and are more strict in the regulation of those at present on their books.

Retail Trade Seasonable weather and clearance sales stimulated many lines of retail trade in the Second Federal Reserve District during June. Purchases by individuals for their vacation needs and by summer tourists in New York City have been large. Figures compiled for department stores in this district show the value of sales in New York City 25 per cent. higher, and in other cities 35 per cent. higher, than June of a year ago.

But buying of the higher-priced merchandise has fallen off during the month, and conservatism has been the rule. The public has benefited by sales of shoes and clothing at prices often below replacement cost because retail stocks were larger than stores could afford to carry. A competent authority estimates the average reduction in the price of clothing since April 1 to be about 33 per cent.

There have been reductions in the manufacturers' prices of ginghams, silks, furs, shoes, and a few other articles, which may be passed on to the retail consumer. But the run of wholesale prices in other lines, as in knit underwear and other knit goods, and retail prices of high-grade furniture, musical instruments, and electrical specialties, has been fairly steady. Retailers are buying cautiously and with a view to securing only articles of a staple nature. They have reduced their stocks materially since the high levels of March, but show now a disposition to increase their outstanding orders to meet future needs.

Railroads and Transportation

In this district, freight movement on the leading railroads has steadily improved during the past month and most of the roads report increases from week to week in the loaded freight-car movement on their various lines. The freight congestion which continued for a number of weeks after the April strike had lost its force has been entirely cleared away on all but one road. Nevertheless, every road now is handling its freight on the license system because the volume of freight offered has often been beyond the physical capacity of the roads.

Particularly noteworthy is the increase this year in the movement of coal. All the larger carriers of coal report an increased movement of coal from the mines this year and there has been a gradual weekly increase in the past two months in the volume of coal carried. One large carrier of anthracite, for instance, moved 5 per cent. more coal in the first two weeks of July than during the same period last year. Two leading carriers of bituminous report increases for June of this year over June of 1919 of 13.6 per cent. and 17.8 per cent. respectively. These indications are confirmed by the statistics of the United States Geological Survey, which show an increase of 19.6 per cent. in the amount of coal produced and moved in the first six months of this year as compared with the corresponding period a year ago.

A preliminary estimate indicates that during the first six months of 1920 the railroads of the country moved more freight of all kinds than in the first half of any previous year, not even excepting the record years of 1917 and 1918. Although greatly handicapped in May and part of June by the freight congestion resulting from the strike conditions of April, there has been on practically all roads a steady increase through the past two months in the total car movement. The New York Central Railroad, for instance, reports a daily average car movement, both loaded and empty, of 96,216 cars for the first 10 days of July, an increase of 1,205 cars over the average for the same period last year. Loaded cars are 67.3 per cent. of the total movement as compared with 65.7 per cent. a year ago. Another large railroad reports an increase of 8 per cent. in the loaded car movement for the first two weeks of July over the same period last year, and of 5.7 per cent. over the last two weeks in June of this year. Figures available based on the reports made to the Commission on Car Service by the individual roads show that the total number of cars of revenue freight loaded in the first four weeks of June of this year were 5.2 per cent. greater than in the same period last year.

The labor situation appears never to have returned to normal following the strike in April, and although most of the roads now have recruited their forces to about the same numerical level as before the strike they still feel the need of the veteran workers. The recently announced increases in wages may bring some of the more experienced men back, although their return is a matter of considerable uncertainty.

Crop Conditions

As a result of rather uneven distribution of rain in New York State last month the condition of the field crops is not uniform throughout the state but on the whole field crops, with the exception of hay, are in average condition or better for this time of year. Winter wheat, potatoes, beans and onions are 3 per cent. better than usual, while corn, oats, spring wheat, barley, rye, alfalfa, millet, peas and tobacco are each within 1 per cent. of their average condition at this time in the past ten years.

Present indications of the average yield per acre for all crops in New York State are about 1.3 per cent. below the average, a decline of 1 per cent. in the past month. This is partly a result of labor shortage.

While the apple crop in New York is not exceptionally heavy this year, the unusually even distribution throughout the state this year will result, it is now estimated, in a yield of 6,737,000 barrels, which is an increase of 125 per cent. over the 1919 crop and 29 per cent. over the crop in 1918. The commercial peach crop is estimated at twice that of last year, but less than half the production of the record year, 1917, mainly because of a 33 per cent. acreage reduction since then. The average condition of grapes in the state is only 76 per cent., as compared with 93 last year, while plums are reported at 83 per cent. of average, quinces at 80, and cherries at 67.

In the northern counties of New Jersey the condition of crops is practically comparable to the average for New York State. The rains of the past three weeks have brought good progress in the field crops, while the cultivated crops and fruits are maturing under favorable conditions for the most part, although also hindered by labor shortage.

Immigration Only ship capacity appears to limit the number of new arrivals at this port. Reports for each month since February have shown successive increases, and preliminary estimates for July indicate that the flow of immigration is being fully sustained. This is the season, however, both when immigration and emigration are normally heavy. Women and children, as in previous months, make up a large proportion of the immigrants. The source of immigration is the whole of Continental Europe, save for the Central Empires and most of Russia, and from the British Isles and South America. A recent increase in steerage rates has had apparently no effect on the number of immigrants. Approximate revised figures of alien arrivals and departures at this port from January 1 to June 30, 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
Total	202,956	152,537

Employment There was a distinct though not large decrease in employment in the Second Federal Reserve District during the past month. The closing of several mills of a large woolen company threw a number out of employment and the dullness in textile and leather industries resulted in other factories reducing their working forces. Unemployment in the clothing trades is still much greater than is usual at this season of the year and the hope of a settlement of the strike of fur workers in New York City has not been realized. The shoe industry showed an increase of employment during June, but this was due to the settlement of a strike at Rochester. The Pennsylvania Railroad's announcement on July 19 that it would lay off about 12,000 of its employes in the eastern region will apply to several thousand in this district.

A strike of 1,000 longshoremen engaged in the deep-sea trade lasted only one day, but the strike of longshoremen and lightermen in the coastwise trade continues. There have been several minor labor disturbances, but generally conditions are more stable than they were several months ago. There are frequent reports that labor is more efficient, that the increase in unemployment has made some think greater efforts were necessary to hold their jobs.

There is a surplus of untrained male office help, due in part to the number of students seeking employment during vacation. But there are still local shortages of unskilled hands, caused to some extent by the scarcity of immigrant labor, and opportunity for employment for 4,000 or more is reported in the Syracuse district.

In spite of the prevailing conditions the average weekly earnings during June of factory workers in this State increased. The June average, as reported to the New York State Industrial Commission, was $28.77, an increase of 32 cents over May. During the past year the average increase was 28 per cent., while in the six years from June, 1914, to June, 1920, the average increase was 127 per cent.

Few large changes in weekly earnings occurred from May to June this year. The largest gain was $3.27 in the cotton goods industry, due to a general increase of 15 per cent. in wage rates, and earnings in the iron and steel industry reached the record average of $43.12. There was a decrease of $3.15 in the earnings of fur workers and slight decreases in other industries where increased activity resulted in the hiring of a number of lower paid workers.