

(The article on the last page describes gold imports in their relation to 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, August 1, 1921

Credit Conditions

THE reserve percentages of the Federal Reserve system and of the New York Reserve Bank have been higher in the last thirty days than at any time in the past three years, an indication of the liquidation of credit which has been going forward since the autumn of 1920.

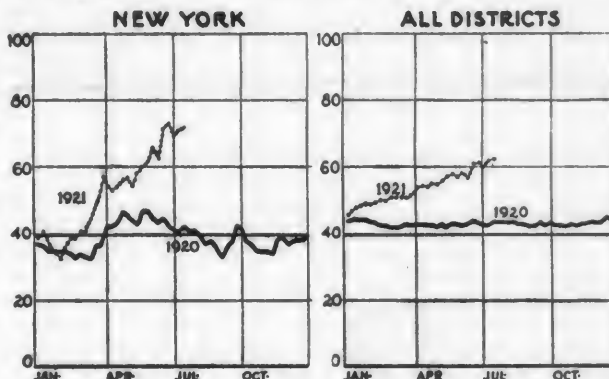
This liquidation of credit has been attended by a liquidation of goods and of stocks, but by no means has it been confined to domestic business. The heavy importation of gold from Europe, which has continued for about a year, some of it to finance current transactions, has also paid a large amount of foreign indebtedness to the United States, and has contributed toward the building up of considerable foreign balances in New York. Up to July 10, the net movement of gold to this country since July 1, 1920, amounted to \$531,500,000. As appears in a more extended discussion of gold imports, which is printed on the last page of this issue of the REVIEW, almost all of this gold has entered into the reserves of the Reserve Banks. It has worked doubly to increase the reserve position of the system, by enabling member banks to reduce or extinguish indebtedness to the Reserve Banks, and by enlarging its gold reserve. According to a calculation given in the July issue of the Federal Reserve Bulletin, the average reserve ratio of the system during June would have been 48 as against 59 per cent., had there been no additions to gold reserves in the preceding year.

The liquidation in this Federal Reserve district has been more extensive than in the country as a whole, and within this district the greatest reduction of bank credit has taken place in New York City banks. Similarly, the decline in the loans of the New York Reserve Bank has been greater than in the Federal Reserve system as a whole, and accounts for about half the entire reduction. In summary the liquidation of bank credit is as follows:

- The loans of 816 principal banks in all districts, which report to the Federal Reserve Board, declined \$2,233,000,000 from the high point of October 15, 1920, or... 13 per cent.
- The loans of 70 banks in New York City declined \$1,252,000,000 from the high point of October 10, 1919, or... 21 per cent.
- The deposits of 816 banks in all districts declined \$1,349,000,000 from the high point of January 16, 1920, or... 9 per cent.
- The deposits of 70 banks in New York City declined \$974,000,000 from the high point of September 19, 1919, or... 18 per cent.
- The loans of all twelve Reserve Banks declined \$1,458,000,000 from the high point of October 15, 1920, or... 43 per cent.

The loans of all Reserve Banks except New York declined \$775,000,000 from the high point of September 24, 1920, or... 34 per cent.
 The loans of the New York Reserve Bank declined \$749,000,000 from the high point of February 27, 1920, or... 62 per cent.

This decline in loans taken in connection with the importation of gold and partly as a result of it, is reflected in the reserve ratios of the Federal Reserve system and of the New York Reserve Bank. These ratios for the last eighteen months are shown in the diagrams printed on this page. In all cases the percentages shown for the New York Reserve Bank are figured irrespective of borrowings from other Reserve Banks or of loans to them. At this time such loans to other Reserve Banks in districts which are largely agricultural amount to \$38,000,000.



Reserve Percentage of the Federal Reserve Bank of New York Each Week in 1920 and 1921 before Interbank Borrowings and Reserve Percentage of the Federal Reserve System

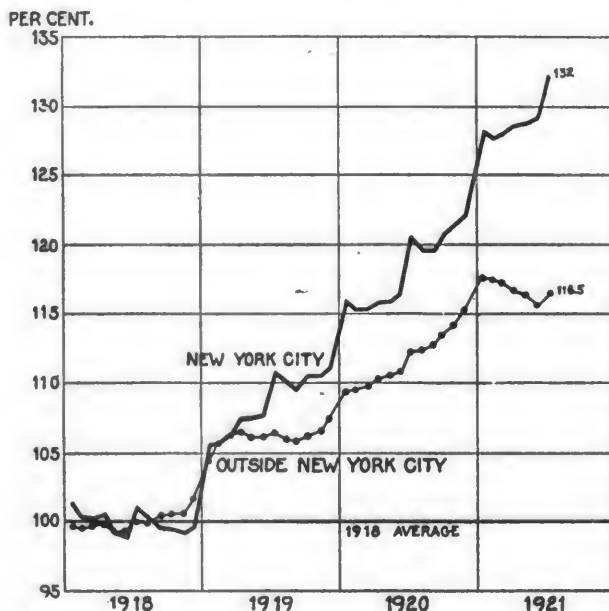
The reduction of bank credit thus far effected, accompanying a decline in the prices of practically all commodities and products, has not been marked by any series of severe business failures such as has characterized other comparable periods. Figures based on the reports of credit agencies indicate on the contrary that the number of such reverses in recent months has been but little above and frequently somewhat below the average through a series of years. Bankers ordinarily have avoided the precipitate calling of loans and have aided in the work of readjusting to new conditions. In this they have been guided by the knowledge that the resources of the Federal Reserve system have always been available to meet all necessary credit demands.

The reduction in the volume of bank loans, and particularly the decline in loans of the Reserve Banks, reflects the passing of the period of credit stringency. There continues, however, as necessarily must continue at all times, a scrutiny of new loans and the exercise of sound banking judgment in granting them, especially when they are desired for the purpose of holding goods at values unrelated to present conditions or for embarking on enterprises which depend for their profits upon the former level of prices. The discretion of the individual banker, keeping in mind the serious consequences of too strict a program with regard to loans already made and still required, will no doubt lead him to follow a liberal policy wherever present conditions or sound expectations warrant.

On July 21 the New York Reserve Bank reduced its rate on all rediscounts and advances from 6 to $5\frac{1}{2}$ per cent. The Boston, Philadelphia and San Francisco Reserve Banks announced similar new rates simultaneously.

Savings Bank Deposits

An increase in deposits reported on July 10 by representative savings banks in this district coincided with the semi-annual crediting of interest. Deposits in New York City have increased steadily since February but the July increase for banks outside New York was the first since January. In industrial centers in which unemployment has been most marked, banks reported an unusually large turn-over of deposits. In several cases the crediting of interest on July 1 was insufficient to offset heavy withdrawals, and deposits on July 10 were lower than on June 10. The aggregate 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. (Average Deposits in 1918 = 100 Per Cent.)

Bill Market

The dealers' offering rates for prime unindorsed 60- and 90-day bills in the New York market declined to 5 and $5\frac{1}{4}$ per cent. late in July, from the $5\frac{1}{4}$ per cent. rate which prevailed earlier in the month. Shorter maturities were sold at 5 and $5\frac{1}{8}$ per cent., while four and six months' bills were offered at $5\frac{1}{8}$ and $5\frac{3}{8}$ per cent.

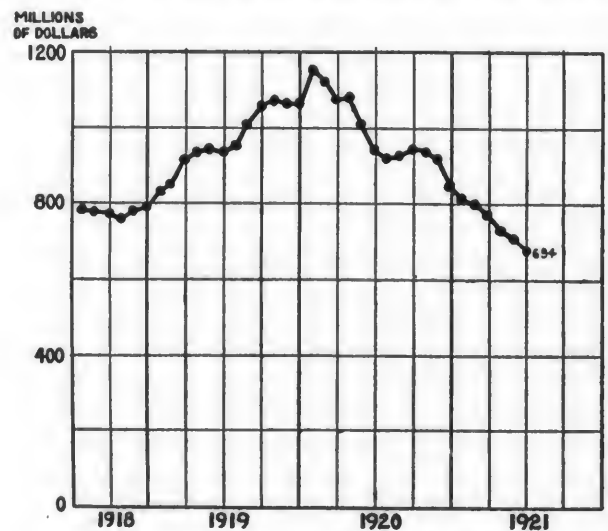
Bills covering the importation of raw silk and raw sugar were numerous. The portfolios of several important dealers were composed largely of bills drawn under recent sugar import credits and these dealers had difficulty at times in filling orders for bills on other commodities. There appeared to be some increase in the volume of grain and cotton export bills during the month. There has been a continuing lack of acceptances drawn overseas in financing foreign trade transactions.

The bill market, as a whole, has broadened materially in the past two months and offerings of bills to the Federal Reserve Bank both by dealers and by member banks have steadily declined. At the end of July the bill holdings of the Federal Reserve Bank were the smallest in several years, aggregating \$5,747,000 on July 20, as against a maximum of \$231,257,000 in February a year ago. Purchases by this bank for the account of its foreign correspondents were an important factor in maintaining market activity.

Commercial Paper

In the third week of July, simultaneously with the reduction of rediscount rates at the Reserve Bank, open market rates for commercial paper were reduced $\frac{1}{4}$ of one per cent. to a range of 6 to $6\frac{1}{4}$ per cent. for prime paper. Slower moving paper generally ruled at $6\frac{1}{2}$ per cent.

The lowering in rates accompanied an increased demand for paper and larger sales than in some months.



Commercial Paper Outstanding—Eleven Dealers

Up to that time, however, the market was dull, and dealers reported that while there was a good demand for paper of unquestioned grade, the unwillingness of purchasers to accept paper of less high grade tended to restrict the volume of sales. This bank's tabulation of the outstanding paper of eleven principal dealers on June 30 indicates a further decline. Dealers continue to report that their best outside market is in the eastern States, and that in New York City the chief buyers continue to be the up-town banks. A few of the larger down-town institutions, which were out of the market for a long period while in debt to the Reserve Bank, have now paid off their loans and are again buying paper for their own accounts; the majority of down-town banks, however, are not investing in commercial paper.

The supply of paper, particularly of choice names, has been rather limited, but both dealers and bankers report that textile concerns which have been light borrowers for some time are now beginning to borrow larger amounts in connection with a more active movement of goods in those lines.

Stock Market Money Rates

In the latter part of June the accumulation of large supplies of funds in preparation for July 1 settlements resulted in a reduction in the call loan renewal rate to 5 per cent., the lowest since October, 1919. After July 1 the rate rose again to 6 per cent., which remained the typical rate during the first three weeks of the month. The somewhat higher range during July accompanied a moderately large movement of funds from this center to the interior in payment of corporate maturities and in response to early crop demands. While the withdrawal from the banks of Government deposits was larger than in recent months, the effect upon money rates was slight, inasmuch as those funds returned to the banks almost immediately upon the redemption of Treasury certificates or when the Government made other disbursements.

Time money became somewhat more active for a brief period early in July, but otherwise the market remained quiet. Rates declined slightly, and at the close of the period were prevailing 6 per cent. for all maturities as compared with 6 to 6½ per cent. a month ago.

Stock Market

Following the prolonged decline during May and June, the stock market in July became decidedly inactive. Industrial stocks recovered slightly, but failed to hold their gains. Railroad stocks made a sharper rise and despite some later profit taking, retained the greater part of their advance. Readjustment of railroad wage scales, quarterly reports showing larger net earnings and the expectation of government relief were factors in the advance. June stock sales were 18,300,000 shares, slightly larger than the May total, and nearly double the amount sold in June, 1920. In July the volume of sales was much smaller.

Bond Market

During the four weeks ended July 20 average bond prices advanced 2 points or more above the low levels to

which they fell in June. This rise was partly due to the usual July reinvestment buying, but the consistent character of the advance appeared to reflect a change in money conditions more favorable to fixed income securities. Railroad bonds were leaders in the advance.

Foreign government bonds were steady. Belgian issues were especially strong, and the 7½s reached 101, a new high price for the year. Japanese 4 per cent. bonds also reached a new high level for the year. Mexican bonds weakened following the failure of the Mexican Government to resume interest payments on July 1.

Total bond sales on the New York Stock Exchange, excluding United States Government bonds, were \$99,202,000 during June, a slightly smaller amount than was sold in May, but more than half as much again as the total in June, 1920. During the first three weeks of July trading became slightly more active.

United States Securities

Heavy trading in Government war issues, particularly Victory notes, brought total sales during June to \$214,500,000, the largest amount for one month since December and not far below the total for June last year. In July, however, trading slackened again, and by the third week of the month sales fell to about two-thirds of the June average.

Prices between June 20 and July 20 showed marked steadiness. The tax exempt Liberty 3½s continued an exception to the general trend, declining sharply to near the lowest price recorded.

The usual Treasury offering of certificates of indebtedness on the fifteenth of the month was omitted in July, but certificates to the amount of \$132,886,500 were redeemed. Two issues dated August 1, aggregating \$300,000,000 or thereabouts, were announced late in July at rates of 5¼ for seven and one-half months and 5½ per cent. for one year. Early subscriptions were exceedingly heavy. Outstanding issues continue to find an active market and all are quoted at slightly above par.

New Financing

During July the market for new securities recovered in moderate degree from the dulness that prevailed during June. Dealers reported a fairly active investment inquiry, but the volume of new offerings was not large. State and municipal bonds formed an unusually large percentage of total issues, and were in excellent demand. Chief among the corporate offerings were \$25,000,000 twenty-five-year bonds of the Canadian Northern Railway guaranteed by the Canadian Government, sold to yield 6.80 per cent.

Terms of new offerings varied little from those established in recent months. Highest grade bonds are marketed to yield between 6½ and 7 per cent., compared with 7 and 7½ per cent. last year. Hesitation of rates in some groups to decline was emphasized recently when City of Philadelphia bonds were offered above 5 per cent. for the first time in the history of the city.

June corporate issues totaled \$179,000,000, a slightly larger sum than was offered in May, but less than the offerings in the active months of this year or in June of last year. As in past months, industrial issues preponderated, and new bonds and notes largely outnumbered stocks. Total issues for the half year aggregated \$1,442,000,000, compared with \$1,800,000,000 in the first half of 1920. It is estimated that about 90 per cent. of this year's issues were to pay off maturing obligations.

Gold Movement

June imports of gold totaled \$43,844,000, which is smaller than the totals for March, April or May but larger than the figures for January or February. Exports continued small.

Below are shown for the first quarter and for April, May and June the amounts of gold received from various countries.

(In thousands)					
Country	First Quarter	April	May	June	Total Jan. 1-June 30
England.....	\$51,163	\$13,771	\$18,807	\$18,509	\$102,250
France.....	45,235	10,895	9,726	7,482	73,338
Sweden.....	4,679	23,798	7,846	6,569	42,892
Canada.....	90,553	158	140	4,237	25,088
China and Hong Kong.....	12,508	3,980	2,370	454	19,312
British India.....	8,081	3,214	4,305	1,546	17,146
Netherlands.....	1,557	11,052	2,657	450	15,716
All Other.....	19,859	13,792	12,370	4,597	50,618
Total Imports.....	\$163,635	\$80,660	\$58,221	\$43,844	\$346,360
Total Exports.....	4,471	884	1,062	773	6,690
Excess of Imports.....	\$159,164	\$80,276	\$57,159	\$43,071	\$339,670

On July 1, the stock of gold in the United States, as estimated by the Treasurer, amounted to \$3,223,000,000, the largest in the country's history.

During the first ten days of July gold imports amounted to \$13,131,000, of which \$5,912,000 came from England and \$4,279,000 from France. Exports during the period were \$1,244,000, of which about \$1,124,000 went to Sweden, the first export to any European country since December, 1920.

Foreign Exchange

Sterling exchange declined further during July although the fall was much less precipitate than during either May or June. Contributory factors in this weakness were the accumulation of foreign-owned balances here which are understood to include provision for retiring certain foreign Government obligations maturing shortly in this market, and the payment for the continued large imports from this country made necessary by the British coal strike which was not settled until late in June, as well as for seasonal shipments of cotton and grain.

Rates on continental Europe followed the fluctuations of sterling in a general way. There was at times consider-

able selling of exchange on some of the former neutral countries, notably Holland, Switzerland, and the Scandinavian countries. This selling was reported by dealers to have originated from German sources. Rates on all these countries declined somewhat during the month.

No change was apparent in the general trend of rates on South America. Continued unfavorable trade conditions in Argentina caused several sharp declines in exchange on that country. Unsettlement in the rates on Brazil, Chile, and Peru continued although declines were less severe than in rates on Argentina. Improvement in bar silver prices was reflected in higher quotations for Far Eastern exchange.

The following table shows the closing quotations for principal exchanges on July 23, the change from last month, and the per cent. depreciation from par.

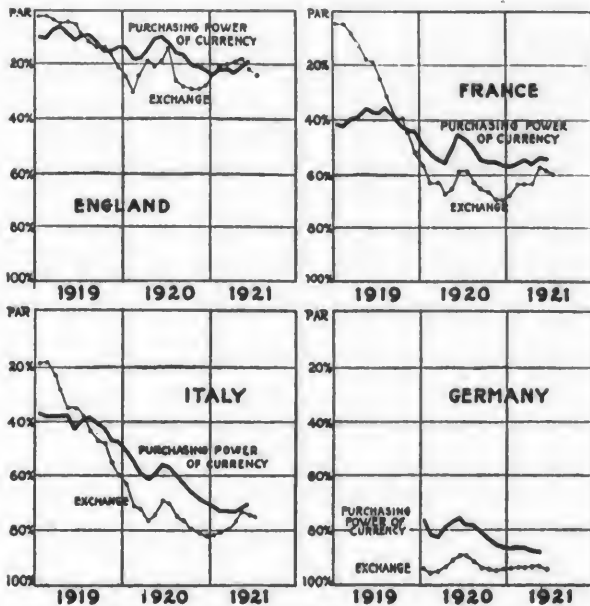
Country	July 23 Last	Change from June 18	Per Cent. Depreciation from Par
England.....	\$3.5775	-.2175	26.5
France.....	.0773	-.0048	59.9
Italy.....	.0433	-.0075	77.6
Spain.....	.1275	-.0055	33.9
Germany.....	.0129	-.0017	94.6
Switzerland.....	.1647	-.0056	14.7
Sweden (Stockholm).....	.2055	-.0185	23.3
Holland.....	.3132	-.0198	22.1
Belgium.....	.0773	-.0030	59.9
Argentina.....	.2867	-.0182	32.5
China (Hong Kong).....	.5013	+.0175	*
China (Shanghai).....	.6788	+.0200	*
Japan (Yokohama).....	.4813	+.0025	3.5
Canada.....	.8888	-.0006	11.1
Bar Silver in N. Y.....	.6025	+.0125	....

*Silver Exchange Basis.

Exchange Rates and Currency Depreciation

In the May issue of the REVIEW there was presented a discussion of the theory of foreign exchanges propounded by Viscount Goschen to the effect that fluctuations in the foreign exchanges away from their gold parity are due primarily to the relative depreciation of currencies in different countries, as shown by the relative price levels in different countries. The accompanying diagram brings up to date the comparison between the depreciation of the exchanges of leading European countries and the depreciation in the purchasing power of their currencies as shown in index numbers for wholesale prices.

In recent months exchange levels have tended to approach the purchasing power of the different currencies. This movement has been particularly evident in the English rates which have held fairly closely together since early in 1921 and are now practically identical. Some slightly greater divergence in the figures for France and Italy in the past month has resulted from the declines in exchange rates. The rate of exchange has tended to approach the relative domestic purchasing power in Germany for the entire past year, although there is still a wider divergence between the curves in the case of



Depreciation of Foreign Exchange from Par and Depreciation of the Purchasing Power of Foreign Currencies from the Purchasing Power of the Dollar. The Par Line Represents the Value of the Dollar and the Figures for Exchange and Purchasing Power are Plotted as Percentages Below Full Dollar Value

Germany than in that of any other nation. The German mark is much more depreciated in foreign exchange than in domestic purchases.

Foreign Trade

There has been no marked change in export trade conditions in recent weeks; orders for most commodities are coming in slowly, though in some lines, especially raw cotton and cotton goods, the increases of the past two or three months have been generally maintained or extended. In certain other important lines, including wheat and copper, buying has become somewhat duller, while trade in steel remains at practically its lowest point.

Japanese buying has contributed largely to increased activity in raw cotton, and China also has taken round amounts. Germany has been buying steadily from American stocks on consignment, but demand elsewhere has not noticeably increased. The War Finance Corporation has recently announced the completion of financial arrangements for the export of 37,000 bales of American cotton, and tentative arrangements for further financing. Total cotton shipments for June were 495,590 bales, slightly larger than May shipments and more than double those of June last year. Twenty-two per cent. of June exports of cotton went to Germany. Orders of some importance for cotton goods were received from the Levant and China.

Despite reports of crop damage abroad, European buying of wheat showed a falling off during July, which exporters attributed to active purchasing a month ago and the recent unsettlement of exchange rates. German

buyers were in the market but their buying was limited by the fact that they requested 90 day credit. Plans were reported under way for the formation of several banking groups which would supply credits for grain shipments to Germany.

Exporters doing business in Australia reported slightly increased orders and improved collections. This apparently reflects the movement of wheat from Australia which has permitted Australian banks to strengthen their balances in London.

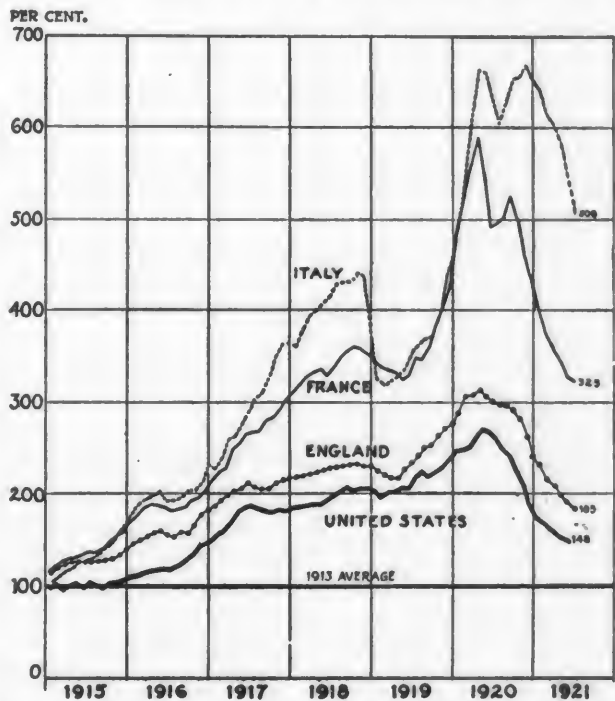
Reports from South America indicate that business depression there continues serious. Stocks of unsold goods are said to be still large, and new buying is slow. A number of exporters have taken increased orders for textiles, particularly colored goods and print cloths, but reports of larger buying have been too scattered to indicate a general improvement.

Summary figures for exports and imports follow.

	June, 1921	May, 1921	June, 1920
Exports	\$857,000,000	\$329,700,000	\$629,000,000
Imports	186,000,000	205,000,000	553,000,000

World Commodity Prices

As indicated in the accompanying diagram and table, wholesale prices in terms of the various currencies continued downward in most of the principal countries for



Wholesale Commodity Prices in Four Countries. (Average Prices in 1913 = 100 Per Cent.)

which figures are available, but on the whole at a greatly reduced rate of decline. Germany stood out as an exception to this movement. Following additional issues of paper money, which brought note circulation to the highest point yet reached, wholesale prices turned sharply upward.

The Italian index declined more rapidly in June than for some months past, accounted for primarily by lower prices of foods and chemicals. The index number for French prices, on the other hand, declined less during June than for several months previous. The movement of British prices was closely similar to that of prices in this country.

Indices of the prices of basic commodities in England and the United States compiled by this bank have shown a tendency towards an upward movement in the early weeks of July, although the tendency is more marked in the United States than in England.

Domestic Commodity Prices

The monthly index number of wholesale prices, compiled by the United States Department of Labor from the average wholesale prices of 327 commodities, declined during June from 151 to 148, or 2 per cent., as compared with a decline from 154 to 151, or 1.9 per cent., during May. Decreases were recorded for 136 commodities and increases for 79. In the case of 112 commodities prices remained constant.

The movement of prices of different groups of commodities making up the Department of Labor index number is shown in the table at the top of this page.

Two of the largest declines are in house furnishings and fuel and lighting, groups in which prices have been considerably above the general average. The building

Commodity Group	Maximum Level	June Level	Per Cent. Decline from Maximum	Per Cent. Change from May
Farm products.....	246	113	54.1	-3.4
Metals.....	195	132	32.3	-4.3
Food, etc.....	287	132	54.0	-0.8
Chemicals, etc.....	222	166	25.2	0.0
Cloths and clothing.....	356	180	49.4	-0.6
Fuel and lighting.....	284	187	34.2	-3.6
Building materials.....	341	202	40.8	0.0
House furnishings.....	371	250	32.6	-4.6
Miscellaneous.....	247	150	39.3	-0.7
All.....	272	148	45.6	-2.0

materials group shows no change. In the computation of the figures for this group, however, structural steel and other metals used in building are not included. If prices of these metals are taken into consideration the cost of building materials shows a continued decline. An index of the cost of building maintained by this bank, including both wages and materials, declined from 187 to 185 during June, based upon the 1913 average.

Early in July the United States Steel Corporation announced a further price reduction, which brings iron and steel prices to a level about 50 per cent. higher than in 1913, or in close correspondence with the general level of wholesale prices. During the past year steel prices have followed the general price average downward with a lag of two or three months. Prices of the non-ferrous metals have tended downward in the past few weeks.

Prices of cotton, wool, rubber, certain textiles, and certain foodstuffs have advanced somewhat in the early weeks of July.

Indices of Wholesale Prices

Base of 1913 = 100 Unless Otherwise Noted

Country	Latest Quotation	Per Cent. Change During			Per Cent. Decline from High	Date of High
		April	May	June		
United States:						
12 basic commodities*	105 (July 16)	-3.1	+2.4	-7.6	57	May 17, 1920
Department of Labor.....	148 (June av.)	-4.9	-1.9	-2.0	46	May, 1920
Dun's.....	132 (July 1)	-4.4	-0.4	-3.7	39	May 1, 1920
Bradstreet's.....	116 (July 1)	-4.9	-1.9	+1.0	49	Feb. 1, 1920
Great Britain:						
Economist.....	179 (July 1)	-3.3	-0.3	-2.1	42	Apr. 1, 1920
Statist.....	183 (July 1)	-4.2	-4.5	-3.9	41	May 1, 1920
20 basic commodities*	156 (July 16)	-3.2	-0.9	-1.7	55	May 21, 1920
France.....	324 (July 1)	-3.5	-5.1r	-1.8	45	May 1, 1920
Italy.....	509 (July 1)	-3.2	-6.3	-6.9	24	Dec. 1, 1920
Japan.....	192 (June av.)	-0.5	+0.5	+0.6	40	March, 1920
Canada.....	179 (June 15)	-3.6	-2.5	-1.9	32	May 15, 1920
Sweden†.....	218 (June 15)	-3.4	-4.8	0.0	41	Dec. 15, 1918
Australia‡.....	166 (May av.)	-5.5	-2.9		30	August, 1920
Norway.....	274 (July 1)	-2.1	+1.0	-0.6	37	Oct. 1, 1920
Germany§.....	1,488 (July 1)	+1.3r	-3.6r	+6.6	13	May 1, 1920
Denmark||.....	254 (June 1)	-4.8	-1.2		37	Nov. 1, 1920

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

Cost of Living

The index number of the National Industrial Conference Board shows practically no change during June in the cost of living for a wage earner's family in the United States. A slight decline in food costs is about counterbalanced by a slight increase in the cost of clothing. For four months the index has shown only a slight downward movement. The index numbers for past months together with the per cent. declines from previous months have been as follows.

(Base—July, 1914 = 100)

Date 1920	Index	Per Cent. Change from Preceding Month	Per Cent. Decline from High
July 1.....	204.5*	+0.7	0.0
August 1.....	203.2	-0.6	0.6
September 1.....	199.4	-1.9	2.5
October 1.....	197.3	-1.1	3.5
November 1.....	193.1	-2.1	5.6
December 1.....	190.0	-1.6	7.1
1921			
January 1.....	181.2	-4.6	11.4
February 1.....	176.3	-2.7	13.8
March 1.....	168.7	-4.3	17.5
April 1.....	167.6	-0.7	18.0
May 1.....	165.7	-1.1	19.0
June 1.....	161.9	-2.3	20.8
July 1.....	161.6	-0.2	21.0

*Peak.

The latest reported figures for different elements of the index are shown in the following table.

Items	July 1 Level	Per Cent. Decline from High	Per Cent. Change During June
Food.....	144	34.2	-0.7
Shelter.....	171	0.0	0.0
Clothing.....	163	43.4	+0.6
Fuel and Light.....	178	11.0	0.0
Sundries.....	185	3.6	0.0
All items.....	161.6	21.0	-0.2

The figures quoted for food are those compiled by the United States Bureau of Labor Statistics. Of the 43 food articles included in the index, 26 declined during June and 10 advanced. There were marked decreases in sugar, butter, cheese and poultry and marked advances in vegetables and fruit.

Inasmuch as food is a larger item in the family budget than clothing, food is given a heavier weight in computing the index number and its decline has more than offset the increase in clothing costs.

In England cost of living figures for June were 4 per cent. below the May figures. The change was largely due to a decline in food costs of about 6 per cent. As in the United States the greatest decline in food items was in dairy products and sugar. In Paris food prices declined about 2 per cent. during June. The index for the food budget of an average family is 219 in England and 312 in Paris, both indices being computed from a base of July, 1914, in terms of the respective currencies.

Production of Basic Commodities

The accompanying table presents in a new form the available figures for the monthly output in the United States of important basic commodities. For each commodity current monthly production is expressed as a percentage of an estimated normal figure for that month. To arrive at a fair estimate of normal production a statistical analysis has been made of all available figures for previous years. The normal growth in production from year to year has been estimated by fitting curves to the annual figures, and the normal variation from month to month has been determined by a study of the deviation of monthly figures from a 12 place moving average.

(Normal Production = 100)

	Jan.	Feb.	Mar.	April	May	June
Anthracite coal mined	101.3	110.8	93.4	98.2	83.9	94.1
Bituminous " "	73.6	64.0	57.4	64.0	67.3	65.9
Pig iron production..	70.0	59.1	44.4	33.2	35.7	30.8
Steel ingot production	58.3	48.8	40.0	30.9	31.9	26.5
Tin deliveries.....	30.1	30.7	32.6	30.8	23.7	30.8
Cement production..	77.8	70.3	88.2	87.7	82.8	83.6
Cotton consumption..	54.8	66.7	66.1	63.6	67.1	72.5
Wool consumption...	55.4	67.1	87.8	98.4	105.2	106.6
Sugar meltings.....	53.6	77.9	120.0	93.9	80.3	79.2
Wheat flour milled...	79.6	80.0	107.9	113.7	104.6	116.1
Meat slaughtered....	88.2	92.2	91.9	101.1	96.9	102.0

Of the 11 indices given in the table, 7 show some increase in June production over that for May. The textile industries have shown the most continuous recent improvement and recent reports point to continued active operations. Cotton and woollen goods producers are showing goods for next spring at prices about on a par with those prevailing for the fall season and report an excellent volume of orders. No figures on silk production for the country as a whole are available but reports from concerns in this district indicate that July production was at about 47 per cent. of capacity as compared with 52 per cent. in June. Buying of silk goods in July was not so active as in previous months.

Stocks on Hand

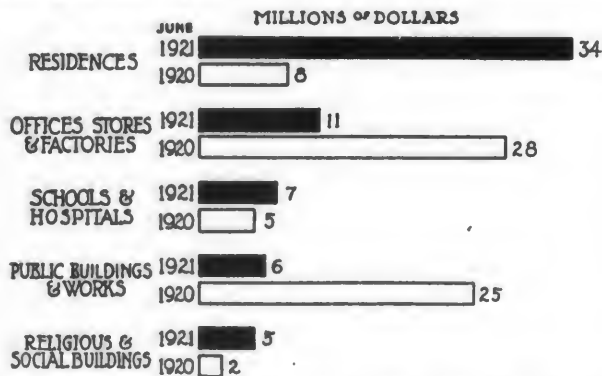
Index figures for stocks of important commodities in the United States have been computed by methods similar to those used to determine the rate of production. The table below shows stocks each month in 1921 expressed as percentages of normal stocks taking into consideration normal increases from year to year and seasonal fluctuations. For grain the figures on visible supply from which the following percentages are calculated do not include all the stocks in the United States. The low visible supply of wheat may be caused in part by the retention of wheat on the farms. A report as of March 1 showed wheat stocks on farms considerably above normal. Very recently it has been reported that this wheat is moving to market.

(Normal Stocks = 100)

	Jan. 1	Mar. 1	May 1	June 1	July 1
Cotton.....	97.2	110.7	125.4	133.7	...
Sugar.....	70.0	65.6	73.9	76.3	...
Corn.....	57.9	116.0	182.5	224.1	...
Wheat.....	70.2	54.3	29.7	37.0	...
Rye.....	180.1	127.1	124.4	141.6	...
Barley.....	97.4	85.7	113.5	150.6	...
Tin (world's supply).....	127.4	107.6	117.4	122.4	129.8
Zinc.....	254.2	...	...	...	304.2
Gasoline.....	96.3	105.9	105.5	118.9	118.1
Chile Nitrate (at Chile ports)	143.7	151.4	143.0	130.1	116.5

Volume of Building

Building contract awards in this district in June as compiled by the F. W. Dodge Company amounted to \$63,000,000, a figure \$5,000,000 larger than the May total and only \$6,000,000 less than the figure for June, 1920, when building costs were about 40 per cent. higher than at present. This bank's index of the actual volume of building, which allows for the changes in prices, is now 9 per cent. higher than in May, 1921, and 27 per cent. higher than in June, 1920. The heavy volume of building is due almost entirely to residential construction, which is four times as great in money value as in June, 1920. This is illustrated in the following diagram which compares contract awards for different types of buildings in June, 1921, and June, 1920.



Building Contracts Awarded for Different Kinds of Buildings in New York and Northern New Jersey During June, 1920, and June, 1921

For the country as a whole June building activity was slightly less than in May. Contract awards in the twenty-seven northeastern states were 6 per cent. below the May total, largely as the result of labor troubles in several of the larger cities. In several cases wage adjustments had been effected by the middle of June and contract awards were much greater thereafter.

Employment

The New York State Industrial Commission reports a decrease of 2 per cent. between May 15 and June 15 in the number of persons employed in industrial establishments. The principal declines were in the iron and steel and miscellaneous metal industries, while there were increases in textiles and clothing and certain establishments for the manufacture of food products. It is probable that the decrease in numbers of employed has continued in recent weeks. Employment bureaus and charity organizations report an increase in the numbers applying for work or for relief.

There is now a considerable demand for farm labor in carrying on harvest work. In the neighborhood of Buffalo the number of workers placed on farms in the past few months is reported as twice as large as in the corresponding period last year.

In the country as a whole recent changes have apparently been similar to those in this district. There has been a reduction in the workers in metals and miscellaneous manufactures, but an increase in employment in industries making goods for more immediate consumption. The following table shows the changes between June, 1920, and June, 1921, and between May, 1921, and June, 1921, in the payrolls of representative establishments in fourteen industries which report to the Department of Labor.

Industry	Per Cent. Change in Number Employed	
	June, 1920, to June, 1921	May, 1921, to June, 1921
Woolen.....	+ 3.9	+1.8
Cotton manufacturing.....	- 0.4	0.0
Cotton finishing.....	- 0.6	+1.8
Cigar manufacturing.....	- 0.6	+1.3
Coal (bituminous).....	- 4.8	+5.0
Silk.....	- 6.5	0.0
Men's clothing.....	-12.8	+8.9
Boots and shoes.....	-13.1	+4.7
Hosiery and underwear.....	-20.8	+2.7
Leather.....	-28.2	+7.2
Paper making.....	-34.6	-0.4
Automobiles.....	-37.5	+0.1
Iron and steel.....	-39.6	-5.7
Car building and repairing.....	-41.6	-2.4

Wages

During July the independent steel companies announced a second reduction in wages of 15 per cent. The United States Steel Corporation also effected a further reduction by doing away with time and a half pay for overtime work. These changes bring average wages of common labor in plants of the steel corporation to about 37 cents an hour, while most of the independent mills are paying about 30 cents. The 1915 level for both the steel corporation and the independents was 20 cents an hour. The reduction in steel workers' wages is one of the few instances of a second wage cut.

On July 1 the railroads without disturbance put into effect previously announced wage revisions. In New York City, employees of both rapid transit companies accepted a 10 to 12 per cent. reduction in wages although the existing wage agreements did not expire for several months. Last year wages had been increased in proportion to the rise in the cost of living.

Members of the building trades unions in New York City thus far have refused to accept any reduction from the current rate of \$9 per day. The working agreement does not expire until December 31. In Westchester County arbitration following labor disputes resulted in an award granting the petition of employers for a reduction from \$9 to \$8 a day, and in several upstate centers workers have accepted reductions and strikes have been terminated.

In the major industries of the district, with few exceptions, some wage reductions have now been put into effect and rates of pay are now from 10 to 30 per cent. below those prevailing a year ago. Average weekly earnings of factory workers in June in New York State were \$25.71, about the same as in May, and 11 per cent. less

than in last October. For thirteen industries in the country as a whole, average earnings showed a reduction of 15 per cent. Reports from the rural districts of New York State indicate that farm labor is being employed this summer at 25 to 30 per cent. lower wages than last year.

Wholesale Trade

This bank has begun the collection of figures showing the sales of large wholesale houses in this district. Thus far firms doing a business of about \$100,000,000 in 1920, have reported their monthly sales for the past two years and a half. For five lines of business the data cover a sufficient number of firms to be indicative of the general trend of sales and are presented in the following table. The figures are subject to revision as further reports are received.

	Per Cent. Change in Sales in June, 1921, Compared with Sales in		
	May, 1921	June, 1920	June, 1919
Clothing.....	0	- 2	+17
Groceries.....	+ 5	-48	-38
Hardware.....	- 5	-46	-34
Machine Tools.....	+26	-66	-72
Shoes.....	-13	- 9	-10

Sales of clothing have been improving recently and for June compare favorably with sales of previous years. Shoe sales are in good volume when price changes are taken into consideration. On the other hand, sales of groceries, hardware, and machine tools are clearly behind those of previous years, even when allowance is made

Sales and Stocks of Department and Apparel Stores

Month of June, 1921 (56 Stores Reporting)	New York and Brooklyn	Buffalo	Newark	Rochester	Syracuse	Elsewhere in Second District	Apparel Stores	Entire Second District
Per cent. change in net sales in June, 1921, compared with net sales in June, 1920.....	- 8.7	- 3.4	- 4.4	+ 2.4	- 9.2	- 7.7	- 5.2	- 7.1
Per cent. change in number of transactions in June, 1921, compared with number of transactions in June, 1920.....	+14.2	+13.7	+ 5.0	....	....	+ 9.1	+ 3.8	+11.4
Per cent. change in net sales from January 1, 1921, to June 30, 1921, compared with net sales during corresponding period last year.....	- 8.8	+ 3.5	- 2.8	+ 7.9	- 3.3	- 5.3	+ 4.1	- 5.1
Per cent. change in stocks at close of June, 1921, compared with stocks at close of June, 1920....	-17.6	-12.2	-26.2	-31.0	-21.5	- 5.0	-20.5	-11.5
Per cent. change in stocks at close of June, 1921, compared with stocks at close of May, 1921....	- 5.9	- 8.4	- 8.9	- 2.7	- 0.8	+ 3.3	-11.1	- 5.6
Percentage of average stocks during first six months of 1921 to total net sales during the same period..	329.6	396.4	330.3	387.0	411.7	472.5	196.1	333.9
Percentage of outstanding orders at close of June, 1921, to total purchases during calendar year 1920.....	5.4	8.3	5.5	4.2	3.7	7.3	11.0	6.2

for lower prices. The increase in machine tool sales is noteworthy, as such sales bear a close relation to activity in manufacturing establishments.

Retail Trade

Net sales by representative department stores in this district during June were 7 per cent. below sales of June, 1920, and less than one per cent. below those of May of this year. As prices on the average are probably 20 to 30 per cent. below those which prevailed last year, and as the number of individual transactions in June, 1921, was about 11 per cent. greater than in June, 1920, it is evident that the amount of merchandise sold continues to be greater than last year. Sales in June, 1921, show an increase of about 20 per cent. over sales in June, 1919, when prices were more nearly equivalent to those prevailing to-day.

Sales for the first half of this year were about 5 per cent. less than in the first 6 months of 1920, but about 25 per cent. greater than during the same period in 1919.

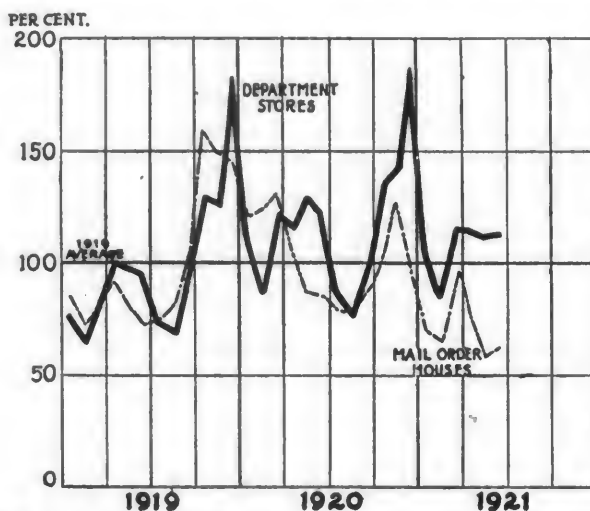
Stocks held by department stores declined about 6 per cent. between June 1 and July 1, a seasonal movement due to the liquidation of spring and summer merchandise. Practically no fall goods have been received as yet, although there is a disposition among retailers to place fairly large orders for fall requirements. The majority of such orders is usually placed in August. Stocks held by retailers on July 1 were about 12 per cent. below those held on the same date last year, whereas sales decreased only about 7 per cent. Stock turn-over during the first six months of 1921 was at the rate of 3.6 times a year com-

pared with 3.1 times a year during the first six months of 1920, and 3.6 times a year in the first six months of 1919.

In June sales by strictly apparel stores and by the apparel sections of department stores showed some falling off and sales by house furnishing departments some gain. This is in direct contrast to conditions that prevailed in May and is due to a seasonal slackening in the demand for clothing as well as to a larger demand for house furnishing goods, following price revisions by many of the department stores. Sales of cotton, silk, and woolen piece goods were also above those of last year.

Sales of mail order houses and chain stores have not been maintained in recent months as well as sales of department stores. The accompanying diagram brings the sales of three large mail order houses into comparison with department store sales. The figures for chain store sales are not exactly comparable with those for other groups of stores, because there has in recent years been a rapid increase in the number of stores. In spite of this increase total sales of 6 important chain store systems in June were somewhat lower in comparison with figures for June, 1920, than were sales of department stores. A summary statement of the facts follows. The chain store and mail order house figures are on a nation-wide basis.

Percentage Comparison of Sales	Chain Stores	Mail Order Houses	Department Stores 2nd Dist.
June, 1921, and June, 1920	-14%	-27%	- 7%
June, 1921, and June, 1919	+26%	-15%	+19%
Jan.-June, 1921, & Jan.-June, 1920.	- 9%	-34%	- 5%



Sales of 57 Department Stores in the Second District and 3 Leading Mail Order Houses Doing a Country Wide Business. (Average Monthly Sales in 1919 = 100 Per Cent.)

Business Failures

The normal seasonal decline in the number of commercial failures continued throughout June and preliminary reports for July indicate a similar decline in that month. The liabilities involved in recent failures have shown a greater falling off than the number of individual reverses. The amount of liabilities in June was 42 per cent. less than in May, while the number of failures declined but 3 per cent. Failures in the Second Federal Reserve District in June numbered 232, a slight increase over May, while liabilities aggregated only \$4,736,684, a reduction of 57 per cent.

The following diagram shows an index of failures throughout the country computed by this bank from Dun's reports. The index gives for each month the annual rate of failures in terms of the percentage of failures to the number of firms in business and makes allowance for normal seasonal fluctuations. Since 1866

when failure figures began to be compiled, an average of about one per cent. of the firms in business has failed each year. The one per cent. line in the diagram may well be considered the normal line. In 1915 failures were above normal but in the following years with rising prices and increased consumption of goods failures were at a lower annual rate than in any previous period for which the figures are available. This year the number of failures has risen in some months a little above the normal line, but latterly the number has been somewhat below it.



Percentage of Firms Failing to the Number in Business, in Terms of Annual Rate, Seasonal Variation Allowed For

Crop Conditions

Scant and irregular rainfall in the Second Federal Reserve District during June led to reduced estimates of the probable volume of 1921 crops. Taking all crops together the United States Department of Agriculture

estimates a decline of 8 per cent. in crop prospects in New York State during June and a prospective yield of 18 per cent. below the average crops for the past ten years. Hay and oats crops are those most seriously affected.

In the United States as a whole the Department of Agriculture reports a 3 per cent. improvement in crop prospects during June due almost entirely to the rapid growth of corn in the middle western states. The expected production of corn, wheat, oats, barley, and rye combined is now 4 per cent. less than last year but 4½ per cent. above the average for the years from 1915 to 1919.

Farm Values and Mortgages

The Bureau of the Census recently gave out figures showing the 1920 values of farms and the amounts of mortgage debts. In New York State the value of farm land and buildings has increased 36 per cent. since 1910, while the amount of mortgage debt has increased nearly 50 per cent. In New Jersey the increase in value has been 21 per cent. and mortgage debt has increased 29 per cent. In the United States as a whole the value of farm property increased 118 per cent. and mortgage debt 133 per cent. In every grand division, mortgage debt has increased more rapidly than the value of property.

The ratio of mortgage debt to value of property at three periods is shown in the following table. Figures for 1900 are not available.

	1890	1910	1920
United States.....	35.5	27.3	29.1
New York State.....	43.6	34.2	37.5
New Jersey.....	49.6	35.1	37.4

Inasmuch as the 1920 figures were collected before the recent decline in the price of farm products, the increase in the ratio of debt is not attributable to that cause but to more fundamental tendencies.

Gold Imports and the Federal Reserve System

WHEN Congress passed the Federal Reserve Act one of its major purposes was to provide elasticity of currency and credit. Gold was to form the sole reserve behind Federal Reserve notes, which were the new elastic currency, and was to be the principal reserve behind Federal Reserve Bank deposits, which increase as bank loans and bank deposits expand. Congress did not specify in dollars or percentages what these reserves should amount to, except as to minimum requirements, and even these were not absolutely rigid.

In practice the reserve ratios of the system pass through a wide range, but thus far they have never fallen to the minimum percentages below which they cannot go without the payment of a penalty. These minimum percentages are 40 per cent. of gold behind Federal Reserve notes and 35 per cent. of gold and lawful money behind deposits. In the middle of July, 1920, the gold behind all Federal Reserve notes in circulation, after allowing for the required reserve against deposits, amounted to 49 per cent., and in July, 1921, to 80 per cent. The corresponding ratio of the New York Reserve Bank rose in the same time from 46 per cent. to more than 100 per cent.

It is from the holdings of the Reserve Banks that gold is mainly withdrawn at times when it is flowing away from the country, and it is into the Reserve Banks that gold mainly goes when the flow is toward the United States. Consequently, if the outflow coincides with a heavy credit demand, as in the period between July, 1919, and July, 1920, the reserve ratios rapidly decline; and if the inflow coincides with a lessened credit demand, as at present, the reserve ratios rise rapidly. In either case, the flexibility of the Federal Reserve system permits adjustment to the demands for credit from industry, commerce and agriculture, and the former adverse consequences of heavy gold movements, such as a sharp curtailment of credit when gold flows out, are minimized.

The supply of gold in the United States is now at its highest point, though not much higher than before the restrictions on the export of gold were removed in June, 1919. During the last twelve months, because of conditions which are without precedent in any like degree, there has been a great flow of gold to this country from

Europe. The total stock of gold in the United States on July 1 of this year was \$3,223,000,000, estimated to be about 40 per cent. of the world's stock.

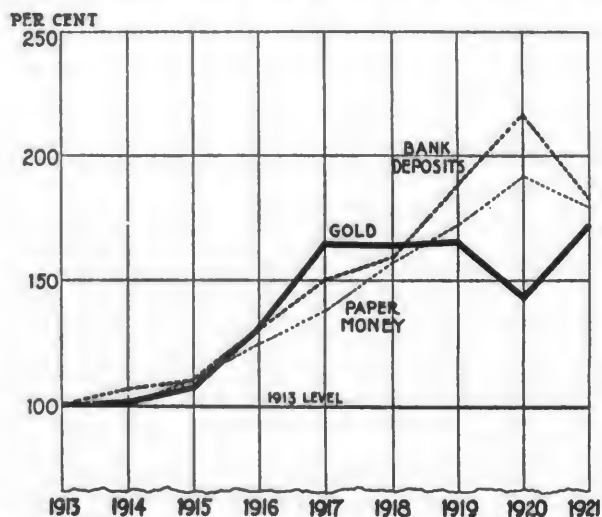
The gold recently received came largely from private sources, and served mainly to reduce foreign indebtedness to this country. The gold holdings of most of the European central banks are larger than before the war. The Bank of England has more than three times as much gold as it had in 1913, the Bank of France more than half as much again, and even the German Reichsbank has nearly as much gold as before the war. That does not mean necessarily that the entire stocks of gold in those countries are greater than before the war, because the tendency has been for gold to be assembled in the central banks, where it should serve as the basis for credit and issues of currency.

In the United States also this tendency has prevailed, and the stock of gold is now largely in the possession of the Federal Reserve Banks. On July 1, out of the total amount of monetary gold in the country, \$2,462,000,000 was in the reserves of the Reserve Banks. In the war years gold circulated less generally and gravitated toward the Reserve Banks, though at all times Federal Reserve notes were redeemable dollar for dollar in gold. In the last twelve months, which marks the recent period of heavy gold importation, the bulk of gold received has been deposited with the Reserve Banks, and in the year ended July 1 their gold reserves increased \$490,000,000, as against an increase of \$535,000,000 in the country's stock.

The primary reason why so much of the imported gold went immediately into the reserves of the Reserve Banks is that it is of greatest utility there. In the possession of a member bank it cannot serve as the basis for credit any more than any other form of money received on deposit, and as long as it remains in the vaults of a member bank it is useless even as reserve, because member banks must keep all of their reserves with the Reserve Bank. In the possession of the Reserve Banks, however, the gold not only serves to strengthen their position, and to increase their availability for the country's credit needs, but it serves better the uses of the member bank depositing it. It loses immediately the disability of weight and bulk; it can be drawn against by check and be transferred by telegraph. It becomes merged with the deposits in the Federal Reserve Banks, and like them can be drawn out again in gold if desired; or when those deposits are in excess of the reserves which member banks are required by law to maintain, can be used to reduce indebtedness at the Reserve Banks. Indeed a large proportion, possibly 40 per cent., of the decrease in Reserve Bank loans is attributable to gold imports.

In spite of the large imports of gold, the percentage of gold to money in circulation is smaller than before the war, as is also the percentage of gold to bank deposits. Whereas in 1915 total gold holdings were almost exactly equal to the volume of paper money in circulation, they are now about 75 per cent. as large as the volume of paper money in circulation; and whereas in 1915 total gold holdings were 10.4 per cent. as large as bank deposits, they are now about 10.2 per cent. The changes in the volume of gold holdings in the country, currency in circulation and bank deposits are shown in the accompanying diagram.

The changes shown in the diagram may be taken as an illustration of how the Federal Reserve system, through its flexibility, met the country's demands for credit in 1920 at a time when the gold supply was diminishing, and how also at this time the gold supply is increasing simultaneously with a decline in the volume of currency and credit.



Stock of Gold in the United States, Deposits of all Banks, and Paper Money in Circulation July 1 of Each Year. (Figures for 1913 = 100 Per Cent.)