

Financial Situation Survey By National City Bank, New York

Effect of Currency Hoarding and Gold Exports

General Business Conditions

(Continued From Page One)

cities of New York and Chicago where most of the buying of government bonds had taken place, and that funds there had to find their way out through the country in a more or less indirect manner, the promptness with which the effects of the federal reserve activities were manifested in the different federal reserve districts has been gratifying.

Rebuilding Member Bank Reserve Balances

With the marked reduction in discounts and the steady increase in the number of banks clear of the federal reserve indebtedness, the continued purchase of securities by the reserve banks has had the effect of building up surplus reserves of member banks, which is the second objective of the federal reserve policy.

As will be seen from the table on changes in the different classifications of reserve bank credit, the first few weeks of government security buying resulted in no enlargement of reserve bank credit outstanding, since funds put into the market through security purchases were more than offset by the reduction in discounts and in the acceptance portfolio. After March 30, however, there was a change in the trend, and continued purchases of government securities were accompanied by a rise of \$401,000,000 in the amount of reserve bank credit in use to \$1,988,000,000 on May 18, the highest since the year-end. While part of this increase was offset by a loss of \$200,000,000 in gold for export during the period and a slight rise in money in circulation, nevertheless there was a net increase of \$280,000,000 in the volume of member bank reserve balances available for use as a bank of credit.

As a consequence of this increase, member bank reserves are estimated at the present time to be more than \$300,000,000 in excess of requirements, sufficient at the customary ratio of expansion to support an added volume of member bank credit equal to over \$3,000,000,000 without another dollar of credit expansion by the reserve banks.

Trend of Member Bank Credit

So much for the contribution of the reserve banks towards business recovery. By their action, pressure of deflation due to monetary causes has been relieved and funds have been made available for member banks and business to use at such time as inclination and opportunity exist to use them.

But business, in the last analysis, can be benefited by easy money policies only insofar as they lead to an expansion of member bank credit. In this respect the showing to date has been less impressive than the ac-

complishments recorded with respect to the reserve banks.

Nevertheless, important progress has been made. The catastrophic decline in bank credit in progress since last July has been arrested.

The turn has been most marked in the case of deposits, which reached a low point of \$16,837,000,000 in March and have since recovered to \$17,128,000,000. For deposits to precede loans and investments in the turn is, of course, natural, since the injection of federal reserve funds into the market automatically swells the volume of deposits, while the movement of loans and investments depends upon the rapidly with which the funds are invested. It is evident from the course of total loans and investments that these funds have not been invested freely, but here too, within the past month, there has been a distinct tendency for the precipitate decline to flatten out.

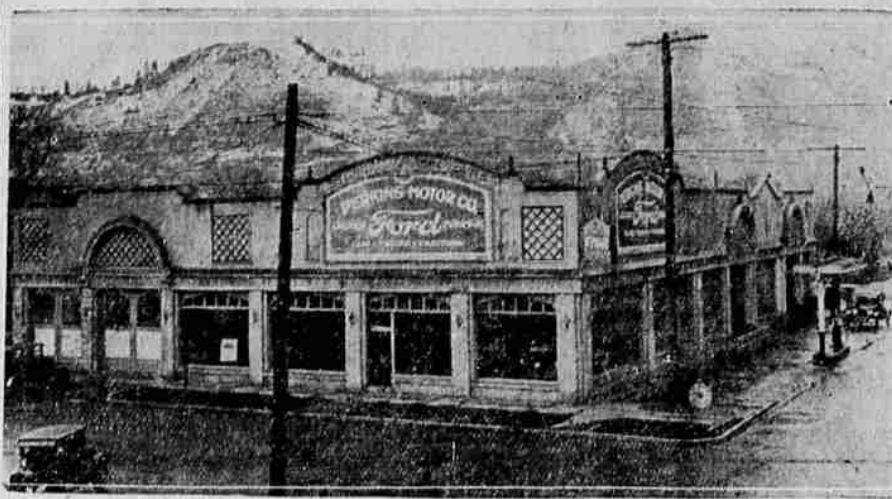
Putting the Funds to Work

The fact that the new federal reserve policy has not done more to stabilize prices and stimulate business revival has undoubtedly disappointed many people who expected too much within a limited period. Such disappointment should not obscure the real accomplishments of the policy which have been described in preceding paragraphs and are important. The pressure imposed upon bank credit has been lifted, and funds are once more accumulating in large volume, awaiting investment in industry, agriculture and trade.

It remains now to find means for putting these available funds to work. To this end the principal obstacle now is fear. Manifestly it is the general view of business men that the uncertainties in political and financial affairs call for policies of caution with respect to forward commitments, and deferment of plans for new or replacement projects, and for expansion of operations, until their profitability is more clearly assured. Among investors this attitude had its counterpart in avoidance of risk in the markets. Hence there is little show of initiative or enterprise in business, capital investment continues nearly at a standstill and activity is largely confined to supplying daily needs which are reduced for lack of purchasing power to satisfy them.

Never has there been a clearer demonstration of the part that the accumulation of capital and its transformation into buildings and machinery and other facilities for raising the standard of life, plays in normal business activity. Every promise of sustained improvement in the industries making goods for personal consumption has failed of realization.

HOME OF PERKINS MOTOR CO.



This structure houses the Perkins Motor company, otherwise known as the Ford garage. In the distance may be seen Table Mountain which stands like a sentinel on the edge of the city, and which affords the hiker a marvelous view of the entire Grande Ronde valley.

because supporting improvement in the "capital goods" industries has not occurred.

Of course, it can be said that the country is over equipped and that capital investment therefore is not needed but this is only a half truth in view of the scrapping that is going on, the mounting obsolescence of the equipment in place, and the new methods, new products and new machinery with which industry needs to equip itself to meet changing markets and to keep production costs down. It is more in accord with the facts to say that the barriers to undertaking work of this kind are the unwillingness of the industries to engage in it while they are having difficulty making both ends meet, and the unwillingness of investors and lenders to incur risk in industrial undertakings. Both policies are rational ones, and in light of all the circumstances are not properly subject to criticism, since the critics could not act differently if they had the decision.

Criticism of Bankers

There has been much criticism of the banks for failure to pass the new supplies of credit into use more rapidly. It is represented that after receiving great sums from the reserve banks and the reconstruction finance corporation the banks are unwilling to make loans as before and in fact are the chief of boarders. This is a kind of criticism that readily passes current, but it is unfair and inaccurate of the difficulties of the banking situation. The new credit which is put into the market by reserve purchases of government bonds comes to the banks as deposits, and the banks are under the same obligation to handle them safely as in the case of other deposits. It should be understood that the business houses are well supplied with capital generally are in easy circumstances now because of slackened trade and are not desiring to borrow. It is safe to say that the banks welcome opportunity to employ their funds safely. Unfortunately, after the losses of the last two years, many would-be borrowers formerly classed as good no longer are entitled to that rating. They are in need of reinforcements of capital before applying for loans of bank credit. This is always the case after a great shoring up of values, and the principles of sound banking cannot be disregarded at any time.

As to purchases of securities similar comments are appropriate. The banks are necessarily cautious about individual purchases of bonds of the class for which the market at present is narrow, for they cannot disregard the possibility that it may be necessary to convert them back into cash. Always the banker must consider his obligation to the depositor whose money he is employing. These considerations are not offered as arguments against further expansion of loans or purchases of securities, but in justice to the banker's side of the situation. It probably is possible for the banks to move more freely in concerted action than they have done singly, but time is required for the development of this policy. The organization in several reserve districts of committees, composed in part of bankers and in part of industrial lenders, for the purpose of advising how funds may be safely used, is a further development of the reserve policy and is sound in principle. This is a constructive effort to revive employment and with the organization extending over the country should answer the complaint that credit is locked up in the centers.

It must be considered that the paralysis of individual initiative, distrust of credit and fear of the future extends over the whole world. Its effect is to produce a disintegration of organized society. It is as infectious as the most insidious disease, and is in fact a disease of the higher civilization, wherein credit has been long used with increasing efficiency, and finally, under enormous stimulus of war and post-war conditions, recklessly. The reaction has been fertile, but all reactions spend themselves at last. People do not remain in the fear paralysis forever. Gradually they realize that all of the elements necessary to orderly business and prosperity still exist and that only a new policy of cooperation is needed to restore confidence and reestablish the economic organization in full working capacity.

Part for Governments to Play

In large part the situation is the outcome of delay in this country and in others alike in dealing with problems which have passed beyond the control of business men and become governmental problems, and action upon which has become more vital as

attention has centered more on them, making their less to confidence. Within the next few weeks decisions will be reached in Washington on the government's fiscal policies and at least upon other critical matters. In their effects upon the will to spend and invest these decisions will be of greatest consequence in the outlook for business.

For the United States, and indeed for all countries, the establishment of the national finances on a sound basis is a condition essential to economic recovery. This means balancing the budget, both by courageous and patriotic action in rigidly controlling expenditures and by increasing the revenues through a broadening of the basis of taxation. The present fiscal year which closes June 30, 1932 shows a deficit through May 24 of approximately \$2,655,000,000, of which \$486,000,000 represents appropriations for the reconstruction finance corporation and \$382,000,000 purchases for the sinking fund. Estimates that have been prepared for the 1933 fiscal year indicate the need for raising approximately \$1,100,000,000 in additional revenues and effecting a reduction of \$300,000,000 in governmental expenditures in order to bring the budget into balance. This balance includes as revenue \$270,000,000 due from foreign governments which may not be received, relies upon some increase of revenue due to an upturn in general business, and does not include such appropriations as may be necessary for the reconstruction finance corporation. The task of treasury financing during the coming fiscal year, in view of the uncertain balance of the budget, is a problem that demands attention before consideration is given to the various relief proposals calling for additional expenditure of several billions of dollars.

Without assurance of government determination to keep its fiscal house in order there is no real confidence in the monetary system or security in any investment or business program. It is safe to say that no single office has done more to restore confidence, check business revival and offset the good effects of the federal reserve credit expansion program than the delay on the part of Congress in dealing with this issue. It is an important and hopeful fact that the Washington observers uniformly predict defeat of the various proposals that would lead to currency inflation, and the passage of tax and economy bills that will bring the federal budget into balance, according to the treasury estimates.

General Business Conditions

The month of May has not been an improvement over its predecessors, so far as general trade activity is concerned. Some of the industries have shown an upturn in the nature of a belated "spring rise" but distributive trade has been dull, and such broad indexes of activity as car loadings and electric power production have made an unfavorable showing, running farther below the corresponding weeks of 1931 than in any earlier period this year. Moreover, weakness in the security and commodity markets contributed its quota of disappointment to the situation, indicating little confidence in early business revival.

The most encouraging development in industry during the month is the belated expansion in automobile manufacture which has provided support for the steel industry against the falling off in demand from its other customers. The seasonal peak

of automobile sales and production is generally reached in April or thereabouts. The first of May, and in the high and medium priced cars the trend has been about as usual, and is now downward. But in the lower price ranges the situation has been different. Due to the late introduction of the Ford model the spring sales for all makes came late and the production peak has not yet been reached. After making 115,000-120,000 cars in each of the first three months of the year, the industry turned out 148,000 in April, apparently came close to 200,000 in May, and with further expansion by the Ford company it appears certain that June will bring another gain.

Of course, the figures are very low and it is necessary to go back to 1921 for comparable totals, but the gain is helpful in many directions. It is due to automobile orders that operations of the steel mills increased gradually from the April low point of 21 per cent to 25 per cent in the third week of May, according to the estimates of the Iron Age.

Building construction is extremely slow but has likewise shown somewhat more than the usual seasonal expansion. Contracts awarded through the 21st of the month, according to the F. W. Dodge corporation, averaged \$5,219,000 daily, an increase of 13.6 per cent from the April average, although a decline of 5.6 per cent from one year ago. For this moderate gain public works construction, especially of highways, has been entirely responsible, since new residential building is more nearly at a standstill than for many years back.

The foregoing are three very important industries and even the moderate improvement noted is an encouraging one. The quantity of "minimum" to which business can drop is sometimes raised, and the course of these industries seems to supply some evidence on the matter, as any rate they have now held their ground or gained slightly for several months, without the aid of general business or trade recovery. It is entirely reasonable, therefore, to be of disappointed character. The textile industries in particular have been dull. The cotton mills during March and April sold only about one-half of their output, and the subsequent curtailment of operations has followed. Domestic cotton consumption in April showed one of the severest declines on record, the average per working day dropping to 15,600 bales compared with 19,600 in March. Apparently the mills have not sold their output during May and continued curtailment into the sixth summer is in prospect. Woolen goods business for fall has not yet developed to any extent, although several weeks have elapsed, since the manufacturers offered their fall lines and prices are substantially lower. In the rayon industry a complete shutdown in June is talked of, to permit absorption of stocks on hand. The silk season in season has not been a favorable one and the hosiery mills are operating at a very low figure. Shoe production likewise is curtailed, the April total being estimated at 25,000 pairs compared with 29,900 in April last year.

The Course of Prices

The month has been another trying period in the markets. Declines to new lows in stocks, bonds and commodities have both reflected and caused further difficulties for business. The fall in commodity prices has been a slow one, but has centered in the raw materials and farm products which already had declined more than manufactured articles, and the

price disparities which are disrupting the exchange of goods therefore have not been improved during the month. Among the commodities which reached new lows during May are copper, zinc, silk, wool, hogs, steers, pig iron, sugar, rubber, butter, and vegetable oils.

An exception to the general weakness, and a very important one, is wheat. The government estimate of the winter wheat crop as of May 1 put 441,000,000 bushels, a reduction of 17,000,000 as compared with one month earlier, and 346,000,000 under last year's yield. Private reports during the month have indicated a further decrease. The spring wheat prospect is a more favorable one. Planting has made good progress and moisture conditions are more satisfactory than in several years. Even if the spring wheat crop should be a good one, total production will be little if any above domestic requirements, and exports will come out of carryover.

The acreage in winter wheat in 20 countries, including Russia, is estimated by the department of agriculture to be 5,900,000 or 3 per cent less than one year ago. The Canadian spring wheat area is reported decreased 3.5 per cent, but planting is off to a good start. In view of the fact that wheat has frequently played in leading the way out of depression, the situation will bear watching, for the ground is laid for an important advance in prices if there should be crop failure in any of the principal spring wheat producing areas of the world.

The cotton crop is getting a good start with weather generally favorable and the acreage reduced less than the trade would like to have it in view of the excessive carryover from the present crop. However, the last word is not said upon the cotton yield until the boll weevil has had its chance at it, and the crop this year is very inadequately ferried. The prospect for agriculture is not a cheerful one in view of the prices of agricultural products, but is helped by the tendency of farmers everywhere to grow more of their living at home and to use more "family labor."

Farm wages have continued downward in a season when they ordinarily advance. The economies that are being made in the cost of production will stand the farm areas in good stead when the time comes to market the crops next fall.

Money Rates and Movements

The continued piling up of funds in the chief money centers, through the federal reserve bank operations already discussed in this letter, has caused the rates of interest and additional reductions in short term loan and investment rates have occurred during the month. Compared with April 1, rates for the purchase of the reserve banks' security buying program, the rates prevailing at the end of May were as follows:

	April 1	May 25
Call money	2 1/2	2 1/2
Time loans, 60-90 days	2 1/4-3	1 1/2
Time loans, 4, 5, 6 months	2 1/4-3	1 1/2
Commercial paper, best names	3 1/4-4	2 1/2-3
Acceptances, 90 days, asked	2 1/2	2 1/2
Treasury bills, 1.90@1.70	3 1/2@1.15	

to develop periodically in Europe has been in full swing during May, causing the heaviest withdrawals of gold in any month since October. Through the 27th of the month the net loss had been \$205,500,000, the change consisting of exports of \$205,000,000, an increase of \$13,300,000 in earnings, and imports of \$12,800,000. Nearly all of the exports went to Holland, France, Switzerland and Belgium. In that order, and the exchanges of all those countries throughout the month have been at or close to the point making gold shipments profitable.

These shipments are the expression of a continuing desire of people in other countries to have their funds at home, following their experience with balances in London on which losses were incurred when gold payments there were suspended. The withdrawals are regarded in this country as a desirable repatriation of the foreign owned gold which was attracted here by high interest rates during the boom and which has been an element of danger and uncertainty while it has been here. Of course, it is regrettable that the movement is of a partly hysterical character, due to misunderstanding abroad of the measures adopted for relieving the credit situation. The withdrawals have caused no disturbance in the money markets, the reserve banks having offset them by purchases of securities.

A slight increase in currency in circulation has occurred during the month, the net gain having been \$12,000,000 in the four weeks ended May 25. If this indicates resumption of hoarding it is obviously of minor importance. Evidently the apprehensions of Europe over our monetary standard find little echo here. Bank failures, which are the primary cause of hoarding, continue much less numerous than in the winter. They totaled 45 in March, 68 in April, and 67 in May up to the 26th, according to the American Banker.

The Bond Market

The bond market has continued under pressure of discouraged selling during May. Losses in the lower rated issues of all types have been particularly severe and in numerous cases prices have dropped to the lowest ever recorded. Higher grade bonds have held their ground better, but have declined likewise. After the middle of the month the government issues developed considerable weakness, and the treasury issues of 1951-55, which at the first of the month were quoted above 94, sold for a time below 90.

The influences operating in the market are not difficult to trace. Weakness of government bonds undoubtedly reflects the apprehension in the minds of investors caused by the long delay of congress in enacting tax legislation and in effecting economies to balance the budget, as well

as the proposals for relief expenditures calling sooner or later for further large offerings of new securities by the treasury. Inasmuch as the trend of government bond prices dominates the market for the highest grade bonds of other classes, the latter have declined in sympathy.

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HEASTY'S SERVICE STATION

Already an outstanding figure in the automobile service station business, Mr. Heasty, still not satisfied with the service he is rendering to the automobile traveler, is installing at this time, a new and complete car greasing system. This new service will consist of special greasing gun equipment and lubricants applied in accordance with instructions on charts prepared by car greasing experts. This new service is to be installed by the Texas Oil company, at which time a general course of instruction will be given to Mr. Heasty and his assistants as to the proper method in the handling of the equipment.

A personal register on which tourists from many states and foreign countries have written their signatures is still maintained after more than four years of continuous operation. The personal service and courteous, cordial treatment he accords his visitors has won for him many friends among the traveling tourists, who never fail to call back when passing through La Grande. In a contest conducted by the Texas Oil company during 1929 for courtesy and cleanliness, Mr. Heasty's station was one of the winners in this district. The filling station is located on the Old Oregon Trail highway at Adams Avenue and Second street, handling Texas company Texaco products.



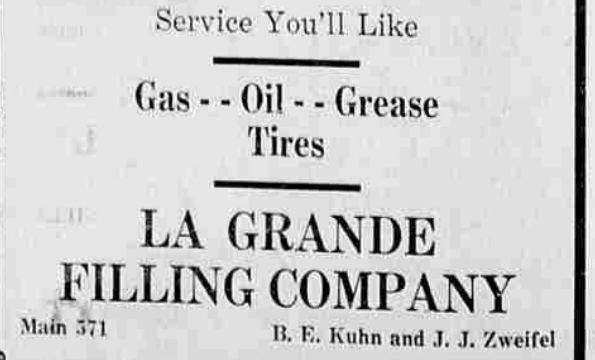
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