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THE SECRETARY OF THE TREASURY
WASHINGTON

January 3, 1938

My dear Mr. President:

I am transmitting herewith for your information two memoranda: (1) some data pertinent to restriction of Japanese trade and (2) the Vice President's proposal to reduce the number of Federal taxes to five.

Faithfully yours,

H Morgenthau Jr

The President,

The White House.

PSF Treas.

THE SECRETARY OF THE TREASURY
WASHINGTON

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January 10, 1938

My dear Mr. President:

I am enclosing herewith for your information a memorandum dated January 8, on, "Current United States Trade with Japan and China."

Sincerely,

H Morgenthau Jr.

The President,
The White House.

Enclosure.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE January 8, 1938

TO Secretary Morgenthau

FROM Mr. Haas

Subject: Current United States trade with Japan and China (Preliminary data)

United States trade with Japan during the first four weeks of December 1937.

(1) United States exports to Japan during the first four weeks of December were considerably lower than during the first four weeks of November and October of this year.

United States exports to Japan

	First four weeks of December 1937	November 1937	October 1937
1st Week	$ 1,704,000	$ 1,180,000	$ 1,727,000
2nd Week	5,305,000	4,813,000	5,746,000
3rd Week	2,394,000	4,745,000	4,492,000
4th Week	3,033,000	3,730,000	6,763,000
Total 4 Weeks	$ 12,436,000	$14,468,000	$18,728,000

(2) United States imports from Japan during the first four weeks of December compared with the same weeks of November and October of this year decreased sharply, the decrease being particularly severe in the last two weeks of December.

United States imports from Japan

	First four weeks of December 1937	November 1937	October 1937
1st Week	$2,159,000	$ 3,239,000	$ 3,328,000
2nd Week	3,406,000	3,654,000	3,984,000
3rd Week	2,672,000	4,333,000	3,419,000
4th Week	1,318,000	3,714,000	4,060,000
Total 4 Weeks	$9,555,000	$14,940,000	$14,791,000

The imports from Japan, in 1935 and 1936, did not decrease during December of those years compared with previous months. In December 1936, United States imports from Japan amounted to

$16,427,000 compared with $15,340,000 for November of that year; in December 1935, United States imports from Japan amounted to $14,370,000 compared with $14,022,000 for the preceding month.

(3) The following items show large decreases in our exports to Japan during the first four weeks of December as compared with the first four weeks of November and October of 1937:

	First four weeks of December 1937	November 1937	October 1937
Petroleum products	$3,333,000	$4,451,000	$4,216,000
Industrial machinery	982,000	1,383,000	1,345,000
Iron & steel semi-mfrs.	899,000	1,172,000	3,580,000
Vehicles, parts & accessories	710,000	840,000	634,000
Copper	681,000	1,570,000	1,441,000
Scrap iron & steel	479,000	564,000	994,000
Scrap brass & brass	304,000	550,000	418,000
Hides and skins	270,000	372,000	833,000
Fertilizers	134,000	234,000	208,000
Coal tar products	102,000	181,000	255,000
Ferro-alloys	51,000	356,000	279,000
Industrial chemicals	33,000	216,000	133,000
Pig iron	Nil	201,000	887,000

The following items show large increases in our exports during the first four weeks of December as compared with our exports of these items during the first four weeks of November and October of 1937:

	First four weeks of December 1937	November 1937	October 1937
Cotton, raw	$1,650,000	$673,000	$ 941,000
Paper base stocks	1,389,000	940,000	1,106,000
Tobacco and manufactures	257,000	Nil	19,000

(4) The imports of raw silk decreased by more than $3,000,000 in the first four weeks of December compared with the first four weeks of November 1937. Imports other than silk also declined sharply during the first four weeks of December, compared with previous months.

	Imports during the first four weeks of December 1937	November 1937	October 1937
Raw silk	$4,925,000	$8,094,000	$8,021,000
Imports other than raw silk	4,630,000	6,846,000	6,770,000
Total	$9,555,000	$14,940,000	$14,791,000

The items imported from Japan showing increases in the first four weeks of December as compared with the first four weeks of November 1937 were tea, chemicals and related products, metals and manufactures, flax, hemp and ramie manufactures, and bristles. All the other significant items decreased in the later period.

(5) Of the total of $12,436,000 of exports to Japan during the first four weeks of December 1937, the following items account for almost all. The November 1937 figures are shown for comparison.

	First four weeks of December 1937	First four weeks of November 1937
Petroleum products	$3,333,000	$4,451,000
Raw cotton	1,650,000	673,000
Paper base stock	1,389,000	940,000
Industrial machinery	982,000	1,383,000
Iron and steel semi-manufactures	899,000	1,172,000
Vehicles, parts and accessories	710,000	840,000
Copper	681,000	1,570,000
Scrap iron and steel	479,000	564,000
Scrap brass and brass	304,000	550,000
Hides and skins	270,000	372,000
Tobacco and manufactures	257,000	Nil
Fertilizers	134,000	234,000
Wood, unmanufactured	118,000	94,000
Coal tar products	102,000	181,000
Pig lead	95,000	41,000
Edible vegetable products	59,000	19,000
Naval stores, gums and resins	57,000	92,000
Chemical specialties	54,000	17,000
Ferro-alloys	51,000	356,000
Industrial chemicals	33,000	216,000
All other	779,000	703,000
Total	$12,436,000	$14,468,000

(6) Of the total of $9,555,000 of our imports from Japan during the first four weeks of December 1937, the following items account for almost all. The November 1937 figures are shown for comparison.

	First four weeks of December 1937	November 1937
Raw silk	$4,925,000	$8,095,000
Cotton manufactures	698,000	979,000
Tea	448,000	433,000
Porcelain and chinaware	272,000	308,000
Paper and manufactures	248,000	260,000
Pyrethrum flowers	246,000	373,000
Fish	244,000	500,000
Silk manufactures	205,000	455,000
Chemicals and related products	191,000	94,000
Vegetable food products except tea	168,000	187,000
Metals and manufactures	155,000	139,000
Flax, hemp and ramie and manufactures	153,000	142,000
Earthenware	112,000	220,000
Wool and manufactures	106,000	183,000
Rayon and manufactures	104,000	205,000
Wood and manufactures	99,000	443,000
Glass and glassware	92,000	189,000
Bristles	74,000	67,000
All other	1,015,000	1,668,000
Total	$9,555,000	$14,940,000

United States trade with China during the first four weeks of December 1937.

(1) United States exports to Hong Kong, China and Manchuria during the first four weeks of December increased slightly over the first four weeks of November 1937, the increase being in our exports to Shanghai, South China ports and Hong Kong.

United States exports to:

	North China and Manchuria	Shanghai, South China and Hong Kong	Total
1st 4 weeks of December 1937	$2,417,000	$4,523,000	$6,940,000
1st 4 weeks of November 1937	2,656,000	3,067,000	5,723,000
Whole month of December 1936			$5,255,000

(2) United States imports from Hong Kong, China and Manchuria during the first four weeks of December were lower than the first four weeks of November 1937.

United States imports from:

	North China and Manchuria	Shanghai, South China and Hong Kong	Total
1st 4 weeks of December 1937	$1,053,000	$3,683,000	$4,736,000
1st 4 weeks of November 1937	1,845,000	3,917,000	5,762,000
Whole month of December 1936			$5,365,000

(3) Leading export items to China:

(a) To North China and Manchuria

	First four weeks of December 1937	First four weeks of November 1937
Iron and steel semi-manufactures	$1,429,000	$1,510,000
Vehicles, parts and accessories	439,000	312,000
Petroleum products	198,000	267,000
Tobacco and manufactures	96,000	197,000
Industrial machinery	83,000	14,000
Wood, unmanufactured	59,000	61,000
Raw cotton	38,000	168,000
All other	75,000	127,000
Total	$2,417,000	$2,656,000

(b) To Shanghai, South China ports and Hong Kong

	First four weeks of December 1937	First four weeks of November 1937
Petroleum products	$1,055,000	$ 808,000
Vehicles, parts and accessories	971,000	231,000
Iron and steel semi-manufactures	606,000	524,000
Tobacco and manufactures	596,000	399,000
Edible vegetable products	271,000	201,000
Printed matter	109,000	133,000
Firearms and ammunition	99,000	46,000
Paper manufactures	96,000	65,000
All other	720,000	660,000
Total	$4,523,000	$3,067,000

(4) Leading imports from China during the first four weeks of December 1937.

(a) From North China and Manchuria

	First four weeks of December 1937	First four weeks of November 1937
Bristles	$ 398,000	$ 787,000
Wool and manufactures	179,000	494,000
Leather	101,000	98,000
Cotton manufactures	69,000	57,000
Perilla oil	57,000	63,000
All other	249,000	346,000
Total	$1,053,000	$1,845,000

(b) From Shanghai, South China ports and Hong Kong

	First four weeks of December 1937	First four weeks of November 1937
Wood oil	$ 745,000	$ 624,000
Tin	567,000	641,000
Flax, hemp and ramie	523,000	423,000
Bristles	262,000	194,000
Food products except tea	190,000	142,000
Wool and manufactures	175,000	139,000
Leather	168,000	106,000
Raw silk	141,000	412,000
Cotton manufactures	106,000	100,000
Tungsten ore	84,000	48,000
Tea	74,000	132,000
All other	648,000	956,000
Total	$3,683,000	$3,917,000

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THE SECRETARY OF THE TREASURY
WASHINGTON

January 15, 1938

My dear Mr. President:

I am enclosing herewith for your information a memorandum dated January 15, on, "Current United States Trade with Japan and China," for the month of December.

Faithfully,

Wayne C Taylor
Acting Secretary of the Treasury

The President,
The White House.

Enclosure.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE January 15, 1938

TO Secretary Morgenthau

FROM Prepared by Mr. White

Subject: Current trade with Japan and China

A. United States trade with Japan during December 1937. 1/

(1) United States exports to Japan.

United States exports to Japan in December 1937 were 11 percent less than during November 1937, and approximately the same as in December 1936.

	1937	1936
December	$16,140,000	$16,433,000
November	18,133,000	24,100,000
October	20,129,000	26,668,000
September	16,842,000	21,328,000
August	24,643,000	10,764,000
July	26,509,000	11,975,000

Excluding exports of raw cotton, our exports to Japan in December 1937 were about $3,000,000 less than our exports during November 1937, and were considerably less than the average for the last six months.

United States exports to Japan, excluding raw cotton:

	1937	1936
December	$14,232,000	$ 8,691,000
November	17,336,000	9,335,000
October	18,558,000	9,787,000
September	15,354,000	10,552,000
August	23,449,000	9,201,000
July	24,566,000	10,965,000

1/ Previous reports cover weekly figures only. This report is for the whole month of December.

(2) United States imports from Japan.

United States imports from Japan in December 1937 dropped sharply from the levels of the preceding months, and were considerably under December 1936.

	1937	1936
December	$11,674,000	$16,427,000
November	17,190,000	15,340,000
October	15,420,000	15,930,000
September	15,988,000	16,012,000
August	16,297,000	16,948,000
July	16,482,000	12,187,000

(3) Cotton exports to Japan increased during December 1937, compared with the previous month, but were still only a small portion of our usual exports of cotton to Japan.

	U. S. exports of cotton to Japan
December 1937	$1,908,000
November 1937	797,000
October 1937	1,571,000
December 1936	7,753,000

(4) Exports of iron and steel scrap to Japan continued to decline in December, compared with previous months in 1937.

	U. S. exports of iron and steel scrap to Japan
December 1937	$ 479,000
November 1937	633,000
October 1937	1,148,000
September 1937	1,402,000
Monthly average, May to August 1937	5,600,000

(5) The following export items show important increases in our trade with Japan during December 1937, compared with November 1937. The values of these export commodities during December 1936 is shown for comparison.

	December 1937	November 1937	December 1936
Industrial machinery	$2,540,000	$1,507,000	$1,005,000
Cotton	1,908,000	797,000	7,753,000
Paper base stocks	1,388,000	1,103,000	524,000
Tobacco	257,000	140,000	278,000
Wood, unmanufactured	119,000	94,000	19,000
Lead	101,000	63,000	Nil

(6) The following export items show important decreases in our trade with Japan during December 1937, compared with November 1937. The value of these exports during December 1936 is shown for comparison.

	December 1937	November 1937	December 1936
Petroleum products	$3,744,000	$5,706,000	$2,008,000
Iron and steel semi-manufactures	1,385,000	1,622,000	350,000
Copper	964,000	2,433,000	402,000
Brass	304,000	723,000	34,000
Hides and skins	278,000	372,000	47,000
Fertilizers	134,000	262,000	108,000
Coal-tar products	128,000	206,000	75,000

(7) The decrease in our imports from Japan during December affected all but a few of the major items of import.

(a) The import items showing significant increases in trade were:

	December 1937	November 1937	December 1936
Chemicals and related products	$214,000	$123,000	$316,000
Fish meal and scrap	154,000	33,000	120,000

(b) The import items showing significant decreases were:

	December 1937	November 1937	December 1936
Raw silk	$5,909,000	$8,943,000	$11,004,000
Cotton manufactures	858,000	1,130,000	1,294,000
Fish	317,000	764,000	213,000
Pyrethrum flowers	277,000	455,000	77,000
Silk manufactures	252,000	533,000	373,000
Earthenware	143,000	232,000	86,000
Rayon and manufactures	127,000	227,000	332,000
Wool and manufactures	117,000	227,000	33,000
Glass and manufactures	104,000	221,000	51,000
Perilla oil	25,000	385,000	Nil

(8) Of the total exports of $16,140,000 to Japan during December 1937, the following items account for almost all. The values of these items of export in November 1937 and December 1936 are shown for comparison.

	December 1937	November 1937	December 1936
Petroleum products	$3,744,000	$5,706,000	$2,008,000
Industrial machinery	2,540,000	1,507,000	1,005,000
Cotton	1,908,000	797,000	7,753,000
Paper base stocks	1,388,000	1,103,000	524,000
Iron & steel semi-mfrs.	1,385,000	1,622,000	350,000
Copper	964,000	2,433,000	402,000
Iron and steel scrap	479,000	633,000	289,000
Brass	304,000	723,000	34,000
Hides and skins	278,000	372,000	47,000
Tobacco	257,000	140,000	278,000
Fertilizers	134,000	262,000	108,000
Coal-tar products	128,000	206,000	75,000
Ferro-alloys	124,000	170,000	90,000
Wood, unmanufactured	119,000	94,000	19,000
Lead	101,000	63,000	Nil
Chemical specialties	81,000	19,000	136,000
Naval stores, gums and rosins	76,000	92,000	299,000
Electrical machinery and apparatus	74,000	34,000	68,000
Edible vegetable prod.	66,000	44,000	95,000
Nickel	43,000	59,000	23,000
Other	1,947,000	2,054,000	2,830,000
Total	$16,140,000	$18,133,000	$16,433,000

(9) Of the total imports of $11,674,000 from Japan in December 1937, the following items account for almost all:

	December 1937	November 1937	December 1936
Raw silk	$5,909,000	$8,943,000	$11,004,000
Cotton manufactures	858,000	1,130,000	1,294,000
Tea	509,000	535,000	246,000
Porcelain and china-ware	325,000	355,000	129,000
Fish	317,000	764,000	213,000
Paper and manufactures	300,000	315,000	92,000
Pyrethrum flowers	277,000	455,000	77,000
Edible vegetable products, except tea	262,000	284,000	296,000
Silk manufactures	252,000	533,000	373,000
Chemicals and related products	214,000	123,000	316,000
Metals and manufactures	179,000	234,000	151,000
Flax, hemp, ramie and manufactures	163,000	157,000	19,000
Fish meal and scrap	154,000	33,000	120,000
Wood manufactures	149,000	164,000	95,000
Earthenware	143,000	232,000	86,000
Rayon and manufactures	127,000	227,000	332,000
Wool and manufactures	117,000	227,000	33,000
Glass and manufactures	104,000	221,000	51,000
Bristles	75,000	67,000	97,000
Camphor and oil	55,000	90,000	73,000
Printed matter	39,000	35,000	14,000
Furs, hides, skins, leather & manufactures	33,000	20,000	38,000
Perilla oil	25,000	385,000	Nil
Other	1,088,000	1,661,000	1,278,000
Total	$11,674,000	$17,190,000	$16,427,000

B. Trade with China in December 1937.

(1) United States exports to China, Manchuria and Hong Kong decreased in December 1937 compared with November 1937, but are higher than our exports during December 1936.

	To North China and Manchuria	To Shanghai, South China and Hong Kong	Total
December 1937	$2,748,000	$5,199,000	$7,947,000
November 1937	3,490,000	6,212,000	9,702,000
December 1936			5,430,000

(2) United States imports from China, Manchuria and Hong Kong.

United States imports from China, Manchuria and Hong Kong decreased in December 1937 compared with the previous month, and were about the same as during December 1936.

	From North China and Manchuria	From Shanghai, South China and Hong Kong	Total
December 1937	$1,200,000	$4,395,000	$5,595,000
November 1937	2,129,000	4,749,000	6,878,000
December 1936			5,497,000

(3) The principal items of export to China were:

(a) To North China and Manchuria:

	December 1937	November 1937
Iron and steel semi-manufactures	$1,521,000	$1,967,000
Vehicles, parts & accessories	445,000	325,000
Industrial machinery	266,000	14,000
Petroleum products	199,000	572,000
Tobacco and manufactures	96,000	198,000
Wood, unmanufactured	59,000	61,000
All other	162,000	353,000
Total	$2,748,000	$3,490,000

(b) To Shanghai, South China ports and Hong Kong:

	December 1937	November 1937
Vehicles, parts and accessories	$1,229,000	$1,354,000
Petroleum products	1,103,000	1,566,000
Iron and steel semi-manufactures	615,000	762,000
Tobacco and manufactures	605,000	415,000
Vegetable products, edible	335,000	292,000
Printed matter	206,000	237,000
Industrial machinery	118,000	156,000
Chemicals & related products	117,000	375,000
Electrical machinery and apparatus	103,000	104,000
Paper manufactures	101,000	79,000
Firearms and ammunition	99,000	243,000
Wood, unmanufactured	93,000	75,000
All other	475,000	554,000
Total	$5,199,000	$6,212,000

(4) The principal items of import from China were:

(a) From North China and Manchuria:

	December 1937	November 1937
Bristles	$ 417,000	$ 879,000
Wool and manufactures	237,000	545,000
Leather and manufactures	107,000	163,000
Cotton manufactures	83,000	60,000
Flax, hemp & ramie and manufactures	64,000	52,000
Perilla oil	57,000	63,000
Animal products, edible	45,000	54,000
Minerals, metals and manufactures	30,000	24,000
All other	160,000	289,000
Total	$1,200,000	$2,129,000

(b) From Shanghai, South China ports and Hong Kong.

	December 1937	November 1937
Tung (wood) oil	$784,000	$814,000
Flax, hemp and ramie and manufactures	690,000	653,000
Tin	598,000	776,000
Bristles	289,000	210,000
Vegetable food products, except tea	226,000	170,000
Furs, leather and manufactures	222,000	161,000
Wool and manufactures	175,000	263,000
Raw silk	164,000	420,000
Tea	139,000	153,000
Cotton manufactures	126,000	113,000
Tungsten ore	110,000	58,000
Metals and manufactures, except tin and tungsten ore	71,000	3,000
Fish	51,000	21,000
Chemicals and related products	50,000	84,000
All other	700,000	850,000
Total	$4,395,000	$4,749,000

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Treasury

TREASURY DEPARTMENT

WASHINGTON

January 20, 1938.

PERSONAL AND ~~CONFIDENTIAL~~

Mr. James Roosevelt,
Secretary to the President,
The White House.

Dear Mr. Roosevelt:

I am told that you inquired on behalf of the President about the income tax returns of Thomas C. Clark and wife of Dallas, Texas.

Commissioner Helvering informs us that the 1936 return is in the field, that he has wired for it and that it should be here by tomorrow. We have, however, the return for 1935. It is a joint return and shows a total income of $122,000.

Yours very truly,

Herbert E. Gaston,
Assistant to the Secretary.

BSF

THE SECRETARY OF THE TREASURY
WASHINGTON

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Economic

January 25, 1938

My dear Mr. President:

I am enclosing herewith for your information a memorandum dated January 22, on, "Current United States Trade with Japan and China."

Faithfully,

H Morgenthau Jr.

The President,
The White House.

Enclosure.

INTER OFFICE COMMUNICATION

DATE January 22, 1938

TO Secretary Morgenthau

FROM Mr. Haas

Subject: Current United States trade with Japan and China (Preliminary data)

(1) United States exports to Japan during the first two weeks of January 1938 show a slight decrease compared with our first two weeks of December 1937, but were slightly higher than during the first two weeks of November 1937.

United States exports to Japan

	1st Week	2nd Week	Total - 1st 2 Weeks
January 1938	$2,726,000	$3,758,000	$6,484,000
December 1937	1,704,000	5,305,000	7,009,000
November 1937	1,180,000	4,813,000	5,993,000
October 1937	1,727,000	5,746,000	7,473,000

(2) United States imports from Japan during the first two weeks of January 1938 were higher than during the same weeks of December 1937, but were lower than during the first two weeks of November 1937.

United States imports from Japan

	1st Week	2nd Week	Total - 1st 2 Weeks
January 1938	$2,034,000	$4,185,000	$6,219,000
December 1937	2,159,000	3,407,000	5,566,000
November 1937	3,245,000	3,654,000	6,899,000
October 1937	3,328,000	3,984,000	7,312,000

(3) The following items show large increases in our exports to Japan during the first two weeks of January 1938, as compared with the first two weeks of December 1937:

	First two weeks of		
	January 1938	December 1937	November 1937
Petroleum products	$1,958,000	$1,408,000	$1,694,000
Cotton, raw	1,533,000	287,000	246,000
Industrial machinery	851,000	684,000	526,000
Copper	430,000	234,000	738,000
Ferro-alloys	136,000	51,000	331,000
Pig iron	110,000	Nil	25,000

The following items show sharp decreases in our exports to Japan during the first two weeks of January 1938, compared with the first two weeks of December 1937:

	First two weeks of		
	January 1938	December 1937	November 1937
Iron & steel semi-mfrs.	$372,000	$ 631,000	$512,000
Paper base stocks	392,000	1,314,000	260,000
Vehicles, parts & access.	230,000	480,000	481,000
Scrap iron and steel	45,000	411,000	44,000
Coal-tar products	26,000	99,000	81,000
Hides and skins, raw	12,000	42,000	311,000
Scrap brass and brass	Nil	304,000	8,000
Tobacco and manufactures	Nil	257,000	Nil
Fertilizer and fertilizer materials	Nil	134,000	118,000
Wood, unmanufactured	Nil	100,000	40,000
Pig lead	Nil	75,000	41,000

(4) The imports of raw silk were approximately $1,000,000 more in the first two weeks of January 1938 than in the first two weeks of December 1937, but imports other than raw silk continued to decline.

	Imports during first two weeks of		
	Raw silk	Total imports other than raw silk	Total
January 1938	$3,780,000	$2,439,000	$6,219,000
December 1937	2,937,000	2,629,000	5,566,000
November 1937	3,916,000	2,983,000	6,899,000
October 1937	4,128,000	3,184,000	7,312,000

(5) Of the total of $6,484,000 of exports to Japan during the first two weeks of January 1938, the following items account for almost all:

Petroleum products	$1,958,000
Cotton, raw	1,533,000
Industrial machinery	851,000
Copper	430,000
Paper base stocks	392,000
Iron and steel semi-manufactures	372,000
Vehicles, parts & accessories	230,000
Ferro-alloys	136,000
Chemicals and related products	125,000
All other	457,000
Total	$6,484,000

(6) Of the total $6,219,000 of our imports from Japan during the first two weeks of January 1938, the following items account for almost all:

Raw silk	$3,780,000
Cotton manufactures	307,000
Pyrethrum flowers	170,000
Silk manufactures	138,000
Dead or creosote oil	114,000
Vegetable foods, except tea	112,000
Fish and fish products	108,000
Tea	107,000
China and porcelain ware	106,000
Perilla oil	101,000
Flax, hemp and ramie	76,000
Fish scrap and fish meal	74,000
Metals and manufactures	74,000
All other	952,000
Total	$6,219,000

United States trade with China during the first two weeks of January 1938.

(1) United States exports to China and Manchuria during the first two weeks of January were slightly higher than during the first two weeks of December 1937, and about double the first two weeks of November 1937.

United States exports to

First two weeks of:	North China and Manchuria	Shanghai, South China and Hong Kong	Total
January 1938	$1,119,000	$2,114,000	$3,233,000
December 1937	1,323,000	1,808,000	3,131,000
November 1937	854,000	770,000	1,624,000
Whole month of January 1937			$6,623,000

(2) United States imports from China and Manchuria during the first two weeks of January 1938 were slightly lower than during the first two weeks of December 1937.

United States imports from

First two weeks of:	North China and Manchuria	Shanghai, South China and Hong Kong	Total
January 1938	$629,000	$1,559,000	$2,188,000
December 1937	541,000	1,905,000	2,446,000
November 1937	797,000	1,498,000	2,295,000
Whole month of January 1937			$6,882,000

(3) Leading export items to China:

(a) To North China and Manchuria:

	First two weeks of January 1938	December 1937
Iron & steel semi-manufactures	$654,000	$629,000
Petroleum products	122,000	173,000
Vehicles, parts and accessories	106,000	424,000
Industrial machinery	83,000	11,000
Raw cotton	72,000	Nil
Copper	54,000	Nil
All other	28,000	86,000
Total	$1,119,000	$1,323,000

(b) To Shanghai, South China ports and Hong Kong:

	First two weeks of January 1938	December 1937
Vehicles, parts & accessories	$756,000	$458,000
Firearms and ammunition	420,000	97,000
Dynamite and T.N.T.	150,000	Nil
Inedible vegetable products	135,000	229,000
Petroleum products	130,000	237,000
Edible vegetable products	108,000	144,000
Metals and manufactures	91,000	309,000
Industrial machinery	79,000	36,000
All other	245,000	298,000
Total	$2,114,000	$1,808,000

(4) Leading import items from China during the first two weeks of January 1938:

(a) From North China and Manchuria:

	First two weeks of January 1938	First two weeks of December 1937
Bristles	$176,000	$207,000
Textile fibers & manufactures	139,000	181,000
Non-metallic minerals & products	83,000	6,000
Chemicals and related products	48,000	Nil
Metals and manufactures	46,000	16,000
Perilla oil	41,000	57,000
Other	96,000	74,000
Total	$629,000	$541,000

(b) From Shanghai, South China and Hong Kong:

	First two weeks of January 1938	First two weeks of December 1937
Tung (wood) oil	$429,000	$330,000
Flax, hemp & ramie manufactures	270,000	285,000
Tungsten ore & concentrates	192,000	Nil
Edible vegetable products	122,000	123,000
Bristles	110,000	195,000
Cotton manufactures	58,000	53,000
Edible animal products	48,000	83,000
Other	330,000	836,000
Total	$1,559,000	$1,905,000

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THE SECRETARY OF THE TREASURY
WASHINGTON

January 29, 1938

file personal Treasury

My dear Mr. President:

I am enclosing herewith for your information a memorandum dated January 27, 1938, on, "Current United States Trade with Japan and China."

Faithfully,

H. Morgenthau Jr.

The President,
The White House.

Enclosure.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE January 27, 1938

TO Secretary Morgenthau

FROM Mr. Haas

Subject: Current United States trade with Japan and China (preliminary data)

(1) United States exports to Japan during the first three weeks of January 1938 show a 13 percent increase over the first three weeks of December 1937, and are only slightly lower than during the first three weeks of November 1937.

United States Exports to Japan

	1st week	2nd week	3rd week	Total 3 weeks
Jan. 1938	$2,726,000	$3,759,000	$4,013,000	$10,498,000
Dec. 1937	1,694,000	5,217,000	2,394,000	9,305,000
Nov. 1937	1,180,000	4,813,000	4,745,000	10,738,000
Oct. 1937	1,727,000	5,746,000	4,492,000	11,965,000

(2) United States imports from Japan during the first three weeks of January 1938 are almost exactly the same as during the first three weeks of December 1937, and are about 27 percent less than the imports from Japan during the first three weeks of November 1937.

United States Imports from Japan

	1st week	2nd week	3rd week	Total 3 weeks
Jan. 1938	$2,033,000	$4,185,000	$2,020,000	$ 8,238,000
Dec. 1937	2,159,000	3,406,000	2,672,000	8,237,000
Nov. 1937	3,245,000	3,654,000	4,356,000	11,255,000
Oct. 1937	3,328,000	3,984,000	3,419,000	10,731,000

(3) The following items show large increases in our exports to Japan during the first three weeks of January 1938 as compared with the first three weeks of December 1937:

	First three weeks of		
	January 1938	December 1937	November 1937
Petroleum products	$2,925,000	$2,186,000	$3,262,000
Raw cotton	2,603,000	854,000	512,000
Industrial machinery	1,229,000	862,000	745,000
Copper	845,000	417,000	1,091,000
Pig iron	242,000	nil	56,000
Ferro-alloys	182,000	51,000	342,000
Pig lead	116,000	75,000	41,000

The following items show sharp decreases in our exports to Japan during the first three weeks of January 1938 as compared with our exports of these items during the first three weeks of December 1937:

	First three weeks of		
	January 1938	December 1937	November 1937
Paper base stocks	$382,000	$1,389,000	$841,000
Scrap iron & steel	277,000	448,000	488,000
Chemicals & related products	207,000	326,000	557,000
Brass, including scrap	1,000	304,000	440,000
Tobacco & manufactures	nil	257,000	nil

(4) Our imports from Japan during the first three weeks of January 1938 remained at the same level as during the first three weeks of December 1937 which was sharply below the level of imports during preceding months. There was no significant shift in the composition of our imports.

First 3 weeks of	Imports of raw silk	Imports other than raw silk	Total
Jan. 1938	$4,586,000	$3,652,000	$ 8,238,000
Dec. 1937	4,487,000	3,750,000	8,237,000
Nov. 1937	6,169,000	5,086,000	11,255,000
Oct. 1937	6,223,000	4,508,000	10,731,000

(5) Of the total of $10,498,000 of our exports to Japan during the first three weeks of January 1938, the following items account for almost all:

Petroleum products	$ 2,925,000
Raw cotton	2,603,000
Industrial machinery	1,229,000
Copper	845,000
Vehicles, parts and accessories	673,000
Iron and steel semi-manufactures	397,000
Paper base stocks	382,000
Scrap iron and steel	277,000
Pig iron	242,000
Chemicals and related products	207,000
Ferro-alloys	182,000
Pig lead	116,000
Other	420,000
Total	$10,498,000

(6) Of the total of $8,238,000 of our imports from Japan during the first three weeks of January 1938, the following items account for almost all:

Raw silk	$4,586,000
Cotton manufactures	494,000
Pyrethrum flowers	255,000
Silk manufactures	248,000
China and porcelain ware	177,000
Tea	145,000
Flax, hemp, ramie and manufactures	133,000
Vegetable food products, except tea	130,000
Fish and fish products	128,000
Dead or creosote oil	114,000
Perilla oil	104,000
Hats and hat materials	99,000
Metals and manufactures	97,000
Wood and manufactures	89,000
Menthol	89,000
Fish meal and scrap	80,000
Toys and parts	76,000
Paper and manufactures	72,000
Earthenware and stoneware	65,000
Rayon and manufactures	65,000
Bristles	63,000
Camphor	51,000
Glass and glass products	45,000
Other	833,000
Total	$8,238,000

United States trade with China during the first three weeks of January 1938

(1) United States exports to China and Manchuria during the first three weeks of January 1938 declined sharply from the first three weeks of December 1937, and were only slightly lower than during the first three weeks of November 1937.

	First three weeks of January 1938	December 1937	November 1937
United States exports to:			
North China & Manchuria	$1,378,000	$2,003,000	$2,083,000
Shanghai, South China and Hong Kong	3,001,000	4,023,000	2,451,000
Total	$4,379,000	$6,026,000	$4,534,000
Whole month of January 1937		$6,623,000	

(2) United States imports from China and Manchuria during the first three weeks of January 1938 were well under the totals for the first three weeks of December and November 1937.

	First three weeks of January 1938	December 1937	November 1937
United States imports from:			
North China & Manchuria	$ 782,000	$ 864,000	$1,193,000
Shanghai, South China and Hong Kong	2,139,000	2,926,000	2,619,000
Total	$2,921,000	$3,790,000	$3,812,000
Whole month of January 1937		$6,882,000	

(3) Leading export items to China:

(a) To North China and Manchuria:

	First three weeks of January 1938	December 1937
Iron & steel semi-manufactures	$ 800,000	$1,158,000
Vehicles, parts & accessories	165,000	439,000
Petroleum products	122,000	174,000
Industrial machinery	98,000	83,000
Raw cotton	72,000	nil
Copper	62,000	nil
Inedible animal products	16,000	26,000
Paper & manufactures	11,000	2,000
All other	32,000	121,000
Total	$1,378,000	$2,003,000

(b) To Shanghai, South China ports and Hong Kong:

	First three weeks of January 1938	December 1937
Vehicles, parts & accessories	$1,207,000	$ 848,000
Firearms & ammunition	420,000	99,000
Petroleum products	142,000	1,055,000
Iron & steel semi-manufactures	175,000	461,000
Inedible vegetable products	166,000	574,000
Dynamite and T. N. T.	150,000	nil
Edible vegetable products	148,000	247,000
Paper & manufactures	105,000	95,000
Industrial machinery	92,000	72,000
All other	396,000	572,000
Total	$3,001,000	$4,023,000

(4) Leading import items during the first three weeks of January 1938:

(a) From North China and Manchuria:

	First three weeks of January 1938	First three weeks of December 1937
Bristles	$203,000	$342,000
Nonmetallic minerals & products	93,000	7,000
Wool & manufactures	49,000	137,000
Chemicals & related products	48,000	3,000
Tungsten ore & concentrates	45,000	Nil
Perilla oil	41,000	57,000
Other	303,000	318,000
Total	$782,000	$864,000

(b) From Shanghai, South China ports and Hong Kong:

	First three weeks of January 1938	First three weeks of December 1937
Tung (wood) oil	$ 515,000	$ 372,000
Flax, hemp, ramie & manufactures	308,000	455,000
Tungsten ore & concentrates	245,000	60,000
Vegetable products, edible	186,000	221,000
Bristles	165,000	251,000
Tin	123,000	528,000
Cotton manufactures	88,000	102,000
Animal products, edible	65,000	136,000
Wool & manufactures	45,000	141,000
Chemicals & related products	43,000	40,000
Other	356,000	620,000
Total	$2,139,000	$2,926,000

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THE SECRETARY OF THE TREASURY
WASHINGTON

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February 2, 1938

My dear Mr. President:

On the 14th of February, Mr. Aubrey Williams, Mr. Bell and I would like to see you and would appreciate it if you could spare us an hour for a conference.

At that time we would like to lay before you the plans of the Works Progress Administration covering employment for the month of March. My understanding is that the 14th will be the last day for approval of the plans, as the orders will have to go out to the State Administrators not later than February 15th.

Faithfully yours,

H Morgenthau Jr.

The President,

The White House.

PSF Treas.

THE SECRETARY OF THE TREASURY
WASHINGTON

File personal

February 8, 1938

My dear Mr. President:

I am enclosing herewith report containing preliminary data on Current United States trade with Japan and China for the first four weeks of January, 1938.

Faithfully,

H Morgenthau Jr.

The President,
The White House.

Enclosure.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE February 8, 1938

TO Secretary Morgenthau

FROM Mr. Haas

Subject: Current United States trade with Japan and China (preliminary data)

United States trade with Japan during the first four weeks of January 1938.

(1) United States exports to Japan during the first four weeks of January 1938 were about 15 percent greater than during the first four weeks of December 1937, and at about the same level as during the first four weeks of November 1937.

United States exports to Japan

	1st week	2nd week	3rd week	4th week	Total 4 weeks
Jan. 1938	$2,726,000	$3,759,000	$4,013,000	$3,721,000	$14,219,000
Dec. 1937	1,694,000	5,218,000	2,394,000	3,033,000	12,339,000
Nov. 1937	1,180,000	4,813,000	4,745,000	3,730,000	14,468,000
Oct. 1937	1,727,000	5,746,000	4,492,000	6,763,000	18,728,000

(2) United States imports from Japan during the first four weeks of January 1938 were about $1,000,000 larger than during the first four weeks of December 1937, although more than 25 percent under comparable periods for October and November 1937.

United States imports from Japan

	1st week	2nd week	3rd week	4th week	Total 4 weeks
Jan. 1938	$2,033,000	$4,185,000	$2,020,000	$2,343,000	$10,581,000
Dec. 1937	2,159,000	3,406,000	2,672,000	1,318,000	9,555,000
Nov. 1937	3,239,000	3,654,000	4,333,000	3,714,000	14,940,000
Oct. 1937	3,328,000	3,984,000	3,419,000	4,060,000	14,791,000

(3) The following items show large increases in our exports to Japan during the first four weeks of January 1938 as compared with the first four weeks of December 1937:

	First four weeks of January 1938	December 1937	November 1937
Petroleum products	$4,095,000	$3,333,000	$4,451,000
Cotton	2,753,000	1,650,000	673,000
Industrial machinery	2,078,000	982,000	1,383,000
Vehicles, parts and accessories	1,124,000	710,000	840,000
Copper	1,007,000	681,000	1,570,000
Pig iron	242,000	nil	201,000
Ferro-alloys	192,000	51,000	356,000
Aluminum	79,000	1,000	10,000
Electrical machinery and apparatus	65,000	27,000	28,000

The following items show large decreases in our exports to Japan during the first four weeks of January 1938 as compared with our exports of these items during the first four weeks of December 1937:

	First four weeks of January 1938	December 1937	November 1937
Iron and steel semi-manufactures	$765,000	$ 899,000	$1,172,000
Paper base stocks	492,000	1,389,000	940,000
Scrap iron and steel	334,000	479,000	564,000
Chemicals and related products	251,000	341,000	685,000
Hides and skins, raw	21,000	270,000	372,000
Edible vegetable products	19,000	59,000	19,000
Wood, unmanufactured	16,000	118,000	94,000
Naval stores, gums and rosins	7,000	57,000	92,000
Brass, including scrap	1,000	304,000	550,000
Tobacco and manufactures	nil	257,000	nil

(4) The imports of raw silk increased somewhat in the first four weeks of January compared with the first four weeks of December 1937, but were still well under the 1936-37 average of $2,000,000 per week.

	Imports during the first four weeks of Jan. 1938	Dec. 1937	Nov. 1937	Oct. 1937
Raw silk	$ 5,653,000	$ 4,925,000	$ 8,094,000	$ 8,021,000
Imports other than raw silk	4,928,000	4,630,000	6,846,000	6,770,000
Total	$10,581,000	$ 9,555,000	$14,940,000	$14,791,000

(5) Of the total of $14,219,000 of our exports to Japan during the first four weeks of January 1938, the following items account for almost all:

	First four weeks of January 1938
Petroleum products	$ 4,095,000
Cotton	2,753,000
Industrial machinery	2,078,000
Vehicles, parts and accessories	1,124,000
Copper	1,007,000
Iron and steel semi-manufactures	765,000
Paper base stocks	492,000
Scrap iron and steel	334,000
Chemicals and related products	251,000
Pig iron	242,000
Ferro-alloys	192,000
Pig lead	117,000
Aluminum	79,000
Electrical machinery and apparatus	65,000
Nickel	50,000
All other	575,000
Total	$14,219,000

(6) Of the total of $10,581,000 of our imports from Japan during the first four weeks of January 1938, the following items account for almost all:

	First four weeks of January 1938
Raw silk	$5,653,000
Cotton manufactures	683,000
Silk manufactures	309,000
Pyrethrum flowers	288,000
Edible vegetable products, except tea	282,000
China and porcelain ware	244,000
Flax, hemp, ramie and manufactures	184,000
Tea	179,000
Fish and fish products	161,000
Perilla oil	142,000
Wood and manufactures	132,000
Toys	128,000
Paper and manufactures	127,000
Dead (creosote) oil	114,000
Menthol	109,000
Earthen ware and stoneware	104,000
Hats and hat materials	103,000
Rayon and manufactures	88,000
Rapeseed oil	83,000
Fish scrap and fish meal	80,000
Glass and glass products	70,000
Bristles	68,000
Camphor	60,000
Wool and manufactures	51,000
All other	1,139,000
Total	$10,581,000

United States trade with China during the first four weeks of January 1938.

(1) United States exports to China and Manchuria during the first four weeks of January 1938 declined sharply from the exports during the first four weeks of December 1937.

	First four weeks of January 1938	December 1937	November 1937
United States exports to:			
North China & Manchuria	$1,786,000	$2,417,000	$2,656,000
Shanghai, South China and Hong Kong	3,840,000	4,453,000	3,067,000
Total	$5,626,000	$6,870,000	$5,723,000

Whole month of January 1937 $6,623,000

(2) United States imports from China and Manchuria during the first four weeks of January 1938 were about $1 million less than the imports during the first four weeks of December 1937 and almost $2 million less than imports for a comparable period in November 1937.

	First four weeks of January 1938	December 1937	November 1937
United States imports from:			
North China & Manchuria	$1,024,000	$1,053,000	$1,845,000
Shanghai, South China and Hong Kong	2,844,000	3,683,000	3,917,000
Total	$3,868,000	$4,736,000	$5,762,000
Whole month of January 1937		$6,882,000	

(3) Leading export items to China:

(a) To North China and Manchuria:

	First four weeks of January 1938	December 1937
Iron and steel semi-manufactures	$ 997,000	$1,429,000
Petroleum products	263,000	198,000
Vehicles, parts and accessories	195,000	439,000
Industrial machinery	99,000	83,000
Raw cotton	72,000	38,000
Copper	68,000	nil
Inedible animal products	38,000	26,000
All other	54,000	204,000
Total	$1,786,000	$2,417,000

(b) To Shanghai, South China ports and Hong Kong:

	First four weeks of January 1938	December 1937
Vehicles, parts and accessories	$1,465,000	$ 971,000
Firearms and ammunition	541,000	99,000
Petroleum products	413,000	1,055,000
Iron and steel semi-manufactures	208,000	606,000
Dynamite and TNT	150,000	nil
Edible vegetable products	150,000	271,000
Industrial machinery	135,000	94,000
Paper and manufactures	113,000	96,000
Wood unmanufactured	59,000	84,000
Tobacco and manufactures	55,000	596,000
All other	551,000	581,000
Total	$3,840,000	$4,453,000

(4) Leading import items during the first four weeks of January 1938:

(a) From North China and Manchuria:

	First four weeks of January 1938	First four weeks of December 1937
Bristles	$ 221,000	$ 398,000
Edible vegetable products	118,000	2,000
Non-metallic mineral products	95,000	11,000
Perilla oil	80,000	57,000
Wool and manufactures	54,000	179,000
Flax, hemp and ramie	53,000	48,000
All other	403,000	358,000
Total	$1,024,000	$1,053,000

(b) From Shanghai, South China ports and Hong Kong:

	First four weeks of January 1938	First four weeks of December 1937
Tung (Wood) Oil	$ 576,000	$ 745,000
Flax, hemp and ramie	446,000	523,000
Bristles	269,000	262,000
Tungsten ore and concentrates	245,000	84,000
Tin	176,000	567,000
Vegetable food, except tea	161,000	190,000
Cotton manufactures	118,000	106,000
Tea	97,000	74,000
Edible animal products	89,000	146,000
Chemicals and related products	73,000	40,000
Raw silk	59,000	141,000
Wood manufactures	50,000	30,000
Wool and manufactures	42,000	175,000
All other	443,000	600,000
Total	$2,844,000	$3,683,000

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THE SECRETARY OF THE TREASURY
WASHINGTON

February 23, 1938

My dear Mr. President:

I am transmitting herewith the consolidated report for the month of January, based on preliminary reports previously furnished you, on United States trade with Japan and China.

Respectfully,

H Morgenthau Jr.

The President,
The White House.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE February 17, 1938

TO Secretary Morgenthau

FROM Mr. Haas

Subject: Current trade with Japan and China.

A. United States trade with Japan during January 1938. 1/

(1) United States exports to Japan.

United States exports to Japan in January 1938 were 30% greater than during December 1937 but 6% less than in January 1937.

	1938	1937
January	$20,981,000	$22,364,000

	1937	1936
December	16,140,000	16,433,000
November	18,133,000	24,100,000
October	20,129,000	26,668,000
September	16,842,000	21,328,000
August	24,643,000	10,764,000

Excluding exports of raw cotton, our exports to Japan in January 1938 were only 7% greater than our exports during December 1937, or in absolute terms, about $1,000,000 more than the preceding month. Exports exclusive of raw cotton were 15% less than the average for the last six months.

1/ Previous reports cover weekly figures only. This report is for the whole month of January.

United States exports to Japan, excluding raw cotton:

	1938	1937
January	$15,164,000	$13,536,000

	1937	1936
December	14,232,000	8,691,000
November	17,336,000	9,335,000
October	18,558,000	9,787,000
September	15,354,000	10,552,000
August	23,449,000	9,201,000

(2) United States imports from Japan.

United States imports from Japan in January 1938 were only slightly lower than in the preceding month but were 26% less than the average for the past six months and 36% less than in January 1937.

	1938	1937
January	$11,342,000	$17,683,000

	1937	1936
December	11,674,000	16,427,000
November	17,190,000	15,340,000
October	15,420,000	15,930,000
September	15,988,000	16,012,000
August	16,297,000	16,948,000

(3) Cotton exports to Japan increased sharply in January 1938 as compared with December 1937. They were, however, $3,000,000 less than in January 1937.

United States exports of cotton to Japan.

January 1938	$5,817,000
December 1937	1,908,000
November 1937	797,000
October 1937	1,571,000
January 1937	8,828,000

(4) Exports of iron and steel scrap to Japan increased slightly in January 1938 as compared to December 1937 but were only 10% of the monthly average maintained from May to August 1937.

United States exports of iron and steel scrap to Japan.

January 1938	$ 534,000
December 1937	479,000
November 1937	633,000
October 1937	1,148,000
September 1937	1,402,000
Monthly average May to August 1937	5,600,000

(5) The following export items show important increases in our trade with Japan during January 1938, compared with December 1937.

	January 1938	December 1937
Raw cotton	$5,817,000	$1,908,000
Petroleum products	5,066,000	3,744,000
Industrial machinery	2,853,000	2,540,000
Copper	1,883,000	964,000
Vehicles, parts and accessories	1,185,000	907,000
Electrical machinery and apparatus	251,000	65,000
Pig iron	242,000	nil

(6) The following export items show important decreases in our trade with Japan during January 1938 compared with December 1937.

	January 1938	December 1937
Iron and steel semi-manufactures	$1,248,000	$1,385,000
Paper base stocks	492,000	1,389,000
Fertilizer and fertilizer materials	24,000	134,000
Hides and skins raw	22,000	278,000
Wood, unmanufactured	16,000	119,000
Scrap brass and brass	1,000	304,000
Tobacco and manufactures	nil	257,000

(7) The decrease in our imports from Japan during January 1938 affected all but a few of the major items of imports.

(a) The import items showing significant increases in trade were:

	January 1938	December 1937
Chemicals and related products	$ 406,000	$ 214,000
Silk manufactures	323,000	252,000
Perilla oil	143,000	25,000

(b) The import items showing significant decreases were:

	January 1938	December 1937
Cotton manufactures	$ 738,000	$ 858,000
Fish and fish products	192,000	317,000
Tea	185,000	509,000
Paper and manufactures	174,000	300,000

(8) Of the total exports of $20,981,000 to Japan during January 1938, the following items, with an export value of $100,000 or over, account for $19,880,000 or 95%. These same items are shown for December 1937 for comparison.

	January 1938	December 1937
Raw cotton	$5,817,000	$1,908,000
Petroleum products	5,066,000	3,744,000
Industrial machinery	2,853,000	2,540,000
Copper	1,883,000	964,000
Iron and steel semi-manufactures	1,248,000	1,385,000
Vehicles, parts and accessories	1,185,000	907,000
Scrap steel	534,000	479,000
Paper base stocks	492,000	1,389,000
Electrical machinery and apparatus	251,000	65,000
Pig iron	242,000	nil
Ferro-alloys	192,000	124,000
Pig lead	117,000	101,000
Total	19,880,000	13,606,000
All other	1,101,000	2,534,000
Grand total	$20,981,000	$16,140,000

(9) Of the total imports of $11,342,000 from Japan in January 1938, the following items with an import value of $100,000 and over account for $10,047,000 or 89%. The value of the same items of import in December 1937 are shown for comparison.

	January 1938	December 1937
Raw silk	$5,947,000	$5,909,000
Cotton manufactures	738,000	858,000
Chemicals and related products	406,000	214,000
Silk manufactures	323,000	252,000
Inedible animal products	304,000	335,000
Edible vegetable products other than tea	298,000	262,000
Pyrethrum flowers	295,000	277,000
China and porcelain ware	271,000	325,000
Fish and fish products	192,000	317,000
Tea	185,000	509,000
Flax, hemp, and ramie and manufactures	185,000	163,000
Paper and manufactures	174,000	300,000
Metals and manufactures	173,000	179,000
Wood and manufactures	151,000	149,000
Toys and parts	147,000	1/
Perilla oil	143,000	25,000
Hats and hat materials of paper, straw or other fibre	115,000	1/
Total	10,047,000	10,074,000
All other	1,295,000	1,600,000
Grand total	$11,342,000	$11,674,000

B. Trade with China in January 1938.

(1) Total United States exports to China, Manchuria and Hong Kong increased slightly in January 1938 compared with December 1937 and were about $1,400,000 larger than in January 1937. Exports to North China and Manchuria decreased while exports to South China and Hong Kong increased.

1/ Not shown separately.

	Total	To North China and Manchuria	To Shanghai, South China and Hong Kong
January 1938	$7,993,000	$2,101,000	$5,892,000
December 1937	7,947,000	2,748,000	5,199,000
January 1937	6,623,000		

(2) Total United States imports from China, Manchuria and Hong Kong decreased in January 1938 compared with December 1937 and were over $2,000,000 less than in January 1937.

	Total	From North China and Manchuria	From Shanghai, South China and Hong Kong
January 1938	$4,470,000	$1,069,000	$3,401,000
December 1937	5,595,000	1,200,000	4,395,000
January 1937	6,882,000		

(3) The principal items of export to China were:

(a) To North China and Manchuria:

	January 1938	December 1937
Iron and steel semi-manufactures	$1,074,000	$1,521,000
Vehicles, parts and accessories	285,000	445,000
Petroleum products	270,000	199,000
Raw cotton	130,000	38,000
Industrial machinery	104,000	266,000
Total	1,863,000	2,469,000
All other	238,000	279,000
Grand total	$2,101,000	$2,748,000

(b) To Shanghai, South China ports and Hong Kong.

	January 1938	December 1937
Vehicles, parts and accessories	$1,777,000	$1,229,000
Industrial machinery	1,318,000	118,000
Firearms and ammunitions	546,000	99,000
Petroleum products	424,000	1,103,000
Tobacco and manufactures	269,000	605,000
Iron and steel semi-manufactures	214,000	615,000
Edible vegetable products	207,000	335,000
Inedible vegetable products other than tobacco	175,000	99,000
Dynamite and T.N.T.	150,000	nil
Paper and manufactures	121,000	101,000
Total	5,201,000	4,304,000
All other	691,000	895,000
Grand total	$5,892,000	$5,199,000

(4) The principal items of import from China were:

(a) From North China and Manchuria:

	January 1938	December 1937
Bristles	$ 221,000	$ 417,000
Non-metallic mineral products	97,000	12,000
Perilla oil	80,000	57,000
Wool and manufactures	57,000	237,000
Metals and manufactures	57,000	30,000
Flax, hemp and ramie and manufactures	54,000	64,000
Total	566,000	817,000
All other	503,000	383,000
Grand total	$1,069,000	$1,200,000

(b) From Shanghai, South China ports and Hong Kong.

	January 1938	December 1937
Tung (wood) oil	$ 886,000	$ 784,000
Flax, hemp and ramie and manufactures	470,000	690,000
Tin, ore, bars, pegs, blocks, scrap, etc.	311,000	598,000
Bristles	285,000	289,000
Vegetable food, other than tea	209,000	226,000
Cotton manufactures	131,000	126,000
Tungsten ore and concentrates	129,000	110,000
Tea	118,000	139,000
Edible animal products	115,000	167,000
Silk, unmanufactured	79,000	164,000
Chemicals and related products	79,000	50,000
Wood and manufactures	56,000	37,000
Total	2,868,000	3,380,000
All other	533,000	1,015,000
Grand total	$3,401,000	$4,395,000

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PSF

THE SECRETARY OF THE TREASURY
WASHINGTON

Treasury

file personal

February 25, 1938

THE WHITE HOUSE
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RECEIVED

My dear Mr. President:

I am transmitting herewith preliminary report covering the first two weeks of February on United States trade with China and Japan.

Respectfully,

H Morgenthau Jr.

The President,
The White House.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE February 24, 1938

TO Secretary Morgenthau

FROM Mr. Haas

Subject: Current United States trade with Japan and China (Preliminary data)

(1) United States exports to Japan during the first two weeks of February 1938 were about 6 percent lower than during the first two weeks of January 1938, and about 12 percent lower than during the first two weeks of December 1937.

United States exports to Japan

	1st week	2nd week	Total - 1st 2 weeks
February 1938	Nil	$6,112,000	$6,112,000
January 1938	$2,726,000	3,759,000	6,485,000
December 1937	1,694,000	5,218,000	6,912,000
November 1937	1,180,000	4,813,000	5,993,000

(2) The following items show large increases in our exports to Japan during the first two weeks of February 1938, as compared with the first two weeks of January 1938.

	First two weeks of February 1938	January 1938	December 1937
Industrial machinery	$985,000	$851,000	$607,000
Vehicles, parts & accessories	624,000	230,000	480,000
Scrap iron and steel	441,000	45,000	411,000
Pig iron	314,000	110,000	Nil
Fertilizer & fertilizer materials	248,000	Nil	134,000
Tobacco & manufactures	289,000	Nil	257,000

The following items show sharp decreases in our exports to Japan during the first two weeks of February 1938, as compared with the first two weeks of January 1938.

	First two weeks of February 1938	January 1938	December 1937
Raw cotton	$1,116,000	$1,533,000	$ 287,000
Petroleum products	547,000	1,958,000	1,408,000
Copper	214,000	430,000	234,000
Paper base stocks	201,000	382,000	1,314,000

(3) Of the total of $6,112,000 of exports to Japan during the first two weeks of February 1938, the following items account for almost all.

Raw cotton	$1,116,000	
Industrial machinery	985,000	
Vehicles, parts & accessories	624,000	
Petroleum products	547,000	
Scrap iron & steel	441,000	
Pig iron	314,000	
Tobacco & manufactures	289,000	
Fertilizers	248,000	
Copper	214,000	
Paper base stocks	201,000	
Total	4,979,000	81%
All other	1,133,000	19%
Grand total	$6,112,000	

(4) United States imports from Japan decreased about 38 percent during the first two weeks of February 1938, as compared with our imports during the first two weeks of January 1938.

United States imports from Japan

	1st week	2nd week	Total - 1st 2 weeks
February 1938	$1,553,000	$2,327,000	$3,880,000
January 1938	2,033,000	4,185,000	6,218,000
December 1937	2,159,000	3,406,000	5,565,000
November 1937	3,239,000	3,654,000	6,893,000

(5) The imports of raw silk from Japan showed the principal decrease; imports other than raw silk declined over $1,000,000, but individual items maintained about their same relative positions.

Imports during the first two weeks of	Raw silk	Total imports other than raw silk	Total
February 1938	$2,468,000	$1,412,000	$3,880,000
January 1938	3,780,000	2,438,000	6,218,000
December 1937	2,937,000	2,628,000	5,565,000
November 1937	3,916,000	2,977,000	6,893,000

(6) Of the total of $3,880,000 of our imports from Japan during the first two weeks of February 1938, the following items account for almost all.

Raw silk	$2,468,000	
Cotton manufactures	323,000	
China & porcelain ware	92,000	
Hats and hat materials	87,000	
Menthol	54,000	
Pyrethrum flowers	52,000	
Total	3,076,000	79%
All other	804,000	21%
Grand total	$3,880,000	

United States trade with China during the first two weeks of February 1938.

(7) United States exports to China and Manchuria during the first two weeks of February were about 26 percent lower than during the first two weeks of January 1938. Exports to North China and Manchuria declined 50 percent and exports to Shanghai, South China and Hong Kong declined 13 percent.

United States exports to

First two weeks of	North China and Manchuria	Shanghai, South China and Hong Kong	Total
February 1938	$ 557,000	$1,842,000	$2,399,000
January 1938	1,116,000	2,114,000	3,230,000
December 1937	1,323,000	1,808,000	3,131,000

Whole month of February 1937 $5,262,000

(8) Leading export items to China:

(a) To North China and Manchuria:

	First two weeks of February 1938	First two weeks of January 1938
Iron & steel & manufactures	$205,000	$ 654,000
Automobile parts & accessories	87,000	106,000
Copper	62,000	54,000
Industrial machinery	57,000	83,000
Wood & manufactures	55,000	4,000
All other	91,000	215,000
Total	$557,000	$1,116,000

(b) To Shanghai, South China and Hong Kong:

	First two weeks of February 1938	First two weeks of January 1938
Automobile parts & accessories (including aircraft)	$ 613,000	$ 756,000
Firearms & ammunition	381,000	420,000
Printed matter	144,000	2,000
Petroleum products	127,000	130,000
Tobacco & manufactures	96,000	16,000
Tin plate, taggers tin & ternplate	64,000	32,000
All other	417,000	758,000
Total	$1,842,000	$2,114,000

(9) United States imports from China and Manchuria declined about 53 percent in the first two weeks of February 1938, as compared with the first two weeks of January 1938. Imports from North China declined 67 percent and imports from Shanghai, South China and Hong Kong declined 47 percent.

United States imports from

First two weeks of	North China and Manchuria	Shanghai, South China and Hong Kong	Total
February 1938	$207,000	$ 826,000	$1,033,000
January 1938	629,000	1,559,000	2,188,000
December 1937	541,000	1,905,000	2,446,000

Whole month of February 1937 $11,804,000

(10) Leading imports from China:

(a) From North China and Manchuria:

	First two weeks of February 1938	First two weeks of January 1938
Textile materials & manufactures	$109,000	$139,000
Perilla oil	39,000	41,000
Animal products, inedible	27,000	211,000
Sausage casings	23,000	4,000
All other	9,000	234,000
Total	$207,000	$629,000

(b) From Shanghai, South China and Hong Kong:

	First two weeks of February 1938	First two weeks of January 1938
Tin, ore, bars, etc.	$172,000	$ 134,000
Tung (wood) oil	138,000	429,000
Flax, etc.	108,000	270,000
Bristles	84,000	110,000
Vegetables, edible	73,000	122,000
All other	251,000	494,000
Total	$826,000	$1,559,000

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TREASURY DEPARTMENT

WASHINGTON

February 25, 1938.

TO THE SECRETARY:

This memorandum is in regard to the question raised at Cabinet last Friday as to whether the Treasury is providing a reserve to take care of the accumulated interest over the ten-year period on United States Savings bonds.

On the date on which the interest rate changes on any series of United States Savings bonds, the Treasury charges the amount of the accrued interest up to that date on each such series of United States Savings bonds to "interest on the public debt" and credits the "principal of the public debt", so that at the end of ten years on any securities outstanding the difference between the issue value and the maturity value will have been charged over the ten-year period to interest, and the bonds outstanding will be carried in the public debt at their maturity value on the maturity date.

As an example, the Treasury issues a bond with a maturity value of $25 for which it receives cash in the amount of $18.75. No interest is payable until the end of the first year. This bond is, therefore, carried in the public debt for the first year at a value of $18.75. At the end of the first year there is twenty-five cents accrued interest due and the holder thereof, if the bond is turned in for redemption, gets $19, or if it is not turned in, the interest is added to the principal of the bond. This difference, or twenty-five cents, is charged to interest and the bond, beginning the second year is carried in the public debt at a value of $19 for the ensuing six months. At the beginning of the next six months the rate changes again and the principal is increased by the amount of the accrued interest for the preceding six months and thereafter it is changed each six months until at the end of ten years the maturity value of the bond ($25) is reached.

DWB

Treas.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

file

DATE February 28, 1938

TO Secretary Morgenthau

FROM Mr. Haas

confidential

Subject: The Business Situation

As the beginning of March approaches, a more general expectation of an impending rise in business activity is discernible in financial reviews and trade journals. Whether this is due largely to seasonal influences, or is based on factors of a more permanent nature, is not entirely clear, since an increase of about 5 per cent in industrial production from January to March is to be expected on seasonal grounds.

Our belief that fundamental conditions favor a greater than seasonal rise in business activity during the spring is based on the following reasoning: (1) At current low levels of activity in many industries, a small upturn would be sufficient to cover the normal seasonal rise; (2) despite generally unfavorable business conditions during February, the seasonally adjusted index of industrial production apparently will show a slight increase; (3) our analysis of basic demand in relation to production indicates that a substantial increase in the output of important industries will be required to bring production up to the current level of demand; (4) a relatively well-maintained volume of retail sales, while replenishment of merchants' stocks has been generally postponed, suggests that inventory replacement may contribute this spring to a higher level of business than called for by normal seasonal requirements.

The steel outlook

While steel ingot production increased during February, the output for the month showed slightly less than the normal seasonal gain over January. New orders during the month were held back by uncertainty over the maintenance of finished steel prices.

The outlook for March appears much more promising. The recent reaffirmation of steel prices for the second quarter has brought a notable increase in inquiries for steel, and is expected to result in heavier ordering during the next few weeks. The recent improvement in business sentiment, confirmed by rising stock and commodity prices, should contribute further to the volume of steel orders during March. Some observers are forecasting an operating rate above 40 per cent by the end of the month, while steel operations currently are running at 30.4 per cent.

An average rate of only 33 per cent during March would be sufficient to maintain operations, on a seasonally adjusted basis, at the February level. Any further improvement during April would represent a contra-seasonal gain, since steel production normally declines slightly in that month.

The automobile industry is expected soon to provide an important source of new orders. The outlook for that industry appears to be gradually improving. Used car sales during February reported for the Eastern territory showed a contra-seasonal increase, and new car sales during the month made substantial gains over the January level. The seasonally-adjusted index of automobile production for February will show a rise of about 10 points over the low of 65 established in January, and a greater than seasonal increase in output also appears likely during March.

Farm implement manufacturers, having allowed their inventories to run very low, according to reports, are also expected to come into the market for steel in the near future. With farm incomes still at relatively favorable levels, the demand for farm equipment has held up surprisingly well. Sales by the International Harvester Company during January amounted to $12,585,000, as compared with $13,540,000 during the excellent month of January last year, which was by far the highest January on their records back to 1925.

The textile situation

A curtailment of operations in the textile industry has been under way for eight months, this being the first major industry to adjust its operations to the reduced level of new orders last summer. It now appears ready to expand operations, since (1) Inventories in retailers' hands are apparently at low levels, following the heavy retail sales of the past several months; (2) buyers are becoming more sensitive to favorable price developments; (3) the enactment of the farm bill provides increased assurance of a rising price trend for cotton and cotton goods during the current year.

The present sensitiveness of textile buyers to favorable price developments, which appears to foreshadow a general buying movement, is illustrated by the immediate response of cloth sales to the President's price statement a week ago. In print cloths, for example, the volume of sales jumped to 40,000,000 yards, about double the week's production. This buying movement has enabled mills to reduce their warehouse stocks, and has tended to stabilize the cloth market.

In the wholesale dry goods markets, more buyers and a better attendance at the various displays are reported than is generally enjoyed at this time of the year. The relatively favorable agricultural situation is reflected in the fact that buyers from the agricultural districts continue to place the largest orders, and that mail orders are showing definite improvement. Salesmen for wholesale concerns report that retail stocks have in many cases been reduced to the point where sales are restricted by a shortage of items called for.

Renewed talk of a 2-cent processing tax to finance the farm program has had some influence in stimulating buying recently. It is felt in some quarters that with the current low inventories in retail channels, a processing tax effective several months hence, without the imposition of a tax on floor stocks, would bring a wave of activity in the textile markets this spring similar to that in the summer of 1933. This would, of course, be at the expense of business next fall. Since the textile industry provides employment for more workers than any other single industry, and accounts for nearly one-fifth of the total weight in the F.R.B. index of industrial production, such a development would temporarily have a stimulating effect on business activity and employment.

Retail sales

The movement of goods into consumption, as indicated by department store sales, continues at a much higher level than would be suggested by the depression in industry. The peak of the recovery movement, reached in February of last year, was only 7½ per cent, in dollar value, above the current level of department store sales.

In Chart 1, attached, we show an adjusted index of department store sales by months (including an estimate for February based on sales through February 19) broken down by Federal Reserve districts. While sales in dollar values have declined slightly during February, being 1 per cent below the December figure, a substantial drop in prices indicates that sales in physical volume have tended to increase.

The price situation

The commodity price outlook has recently been improved by three developments of major importance: (1) An improvement in fundamental conditions for a number of commodities brought about by reductions or prospective reductions in supply, as in the case of cotton, rubber, tin, and cocoa, or by a revival in demand, as

in the case of copper and silk; (2) a change in public sentiment toward prices brought about by the President's price statement, which is characterized by one writer as one of the most reassuring and confidence-breeding events that has occurred recently, and by moves of the Administration directed toward an expansion of credit; (3) recent political developments abroad, which are taken as foreshadowing a peaceful settlement of European difficulties that may lead to some expansion of international trade.

In response to these developments, commodity prices in the United States and abroad (See Chart 2) turned upward at the end of February, following a declining trend during the five weeks previous. It will be noted on the chart that prices in the United States (represented by Moody's index) have recently been more stable than British prices (represented by Reuter's index, which is closely comparable). On the decline last fall, prices in this country fell more sharply than in England.

The levelling out of prices during the past three months, while business activity was declining, provides strong evidence of a base having been established for a general price rise. Such a rise could come about either through (1) an increase in industrial or speculative demand, (2) correction of over-supply conditions for individual commodities, or (3) inflationary monetary tendencies. The current price upturn represents a response largely to the first two factors.

Responding to the general improvement in business sentiment, and contributing in some degree to increased optimism, the prices of industrial stocks rose during February to approximately their November and January highs. The stabilized level of stock prices over the past four months, despite the downtrend in industrial production and corporation earnings, suggests that the unfavorable factors in the business outlook have for some time been discounted.

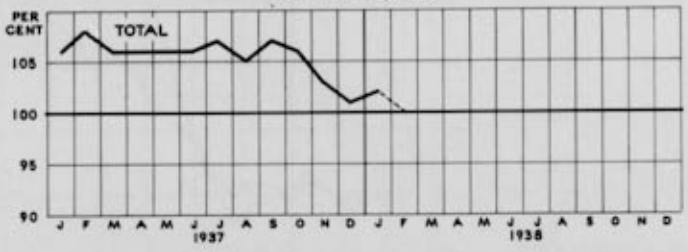
Chart 1

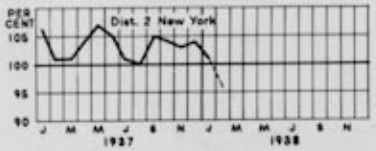
DEPARTMENT STORE SALES

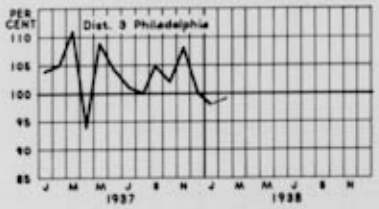
By Federal Reserve Districts

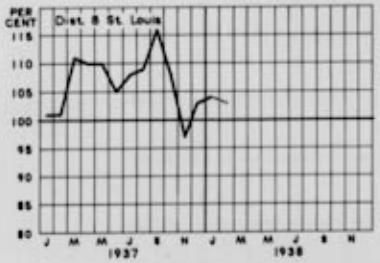
MONTHLY INDEX OF SALES

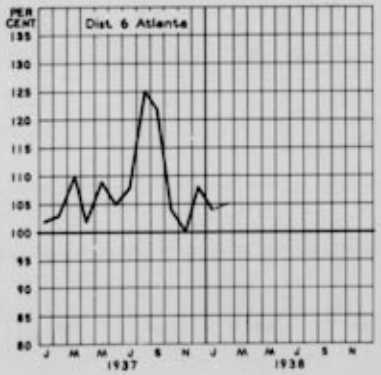
1936=100, Adjusted

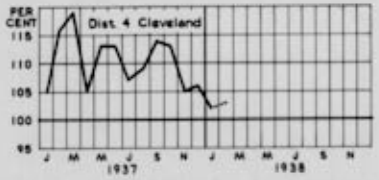


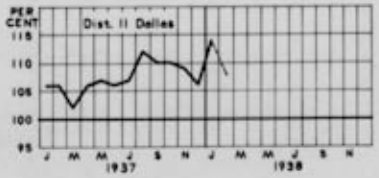


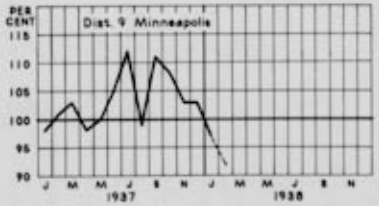


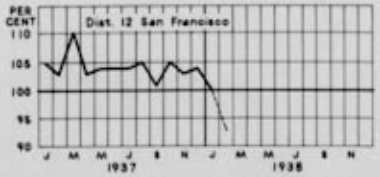










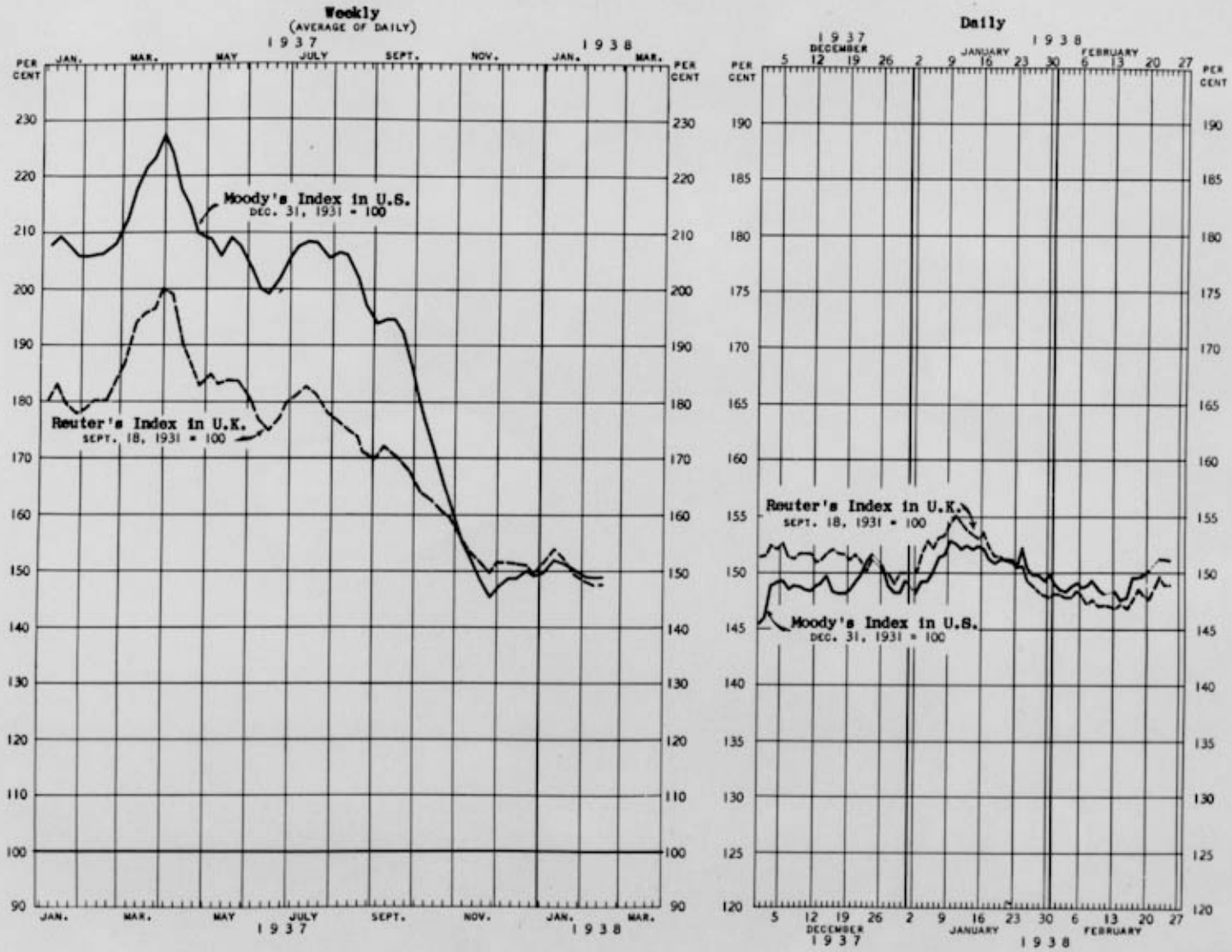


Office of the Secretary of the Treasury
Division of Research and Statistics

C-181

Chart 2

COMMODITY PRICE INDEXES IN U.S. AND U.K.



Office of the Secretary of the Treasury
Division of Research and Statistics

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REB

To be seen by the President

GRAY

London

Dated February 28, 1938

Rec'd 3:33 p. m.

File personal + confidential BSF Treasury

Secretary of State,

Washington.

167, February 28, 6 p. m.

FOR TREASURY FROM BUTTERWORTH.

With reference to your inquiry (No. 85, February 25, 2 p. m.) regarding inter-departmental committee on prices of building materials a 1934 report which is similar to that of 1933 is the latest published. No further reports have appeared due to a change in procedure by which publicity is now used as a method of pressure.

The committee which is appointed jointly by the Minister of Health and President of the Board of Trade has representatives from the following groups: two of the builders, two of the building trade unionists, two of local governments, two of building material manufacturers, one each of building loan societies and the cooperative movement with three government experts representing the Board of Trade, Ministry of Health and Department of Health for Scotland. The independent chairman is Sir Isador Salmon, M. P. of the restaurant

REB

2-#167, From London, Feb.28,6p.m.

restaurant and hotel chain of Lyons and Company.

The committee's terms of reference may be found on page one of the 1933 and previous reports.

By means of monthly returns from local government surveyors prices are watched. In cases of increases or complaints a representative of the committee approaches the manufacturers association concerned informally. Nearly all building material manufacturing lines are organized in manufacturers associations, these being effective price rings. If the explanation of the price increase is not satisfactory the manufacturers association is asked to meet the committee. The committee has no powers except of persuasion and publicity. By using the threat of publicity only since 1934 instead of reporting all cases studied, the committee's influence has proved more effective. The secretary of the committee informs me in strictest confidence that an experiment is now being tried of suggesting to the import duties advisory committee an investigation with a view to the lowering of protective duty, that committee being vested with full powers of scrutiny of accounts, et cetera.

A

REB

3-#167, From London,Feb.28,6p.m.

A full report of the work of the committee together with wages agreements entered into in conjunction with the building materials agreement follows as soon as possible by mail.

JOHNSON

CSB

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PSF Treas.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE March 14, 1938

TO Secretary Morgenthau

FROM Mr. Haas

Subject: The Business Situation, week ending March 12, 1938

Business activity continues generally steady close to the levels at which it has held for the past three months, with some evidence of a spring upturn beginning to appear in such items as lumber production, automobile sales, automobile output, and steel orders.

Commodity prices and stock prices declined somewhat during the week, but have held their ground well in the face of unfavorable news developments. In view of the present stability of most business series, the fact that industrial output has been running at a level lower than the apparent level of demand, and recent signs of improvement in certain industries, we see no reason to revise our expectation of a rising trend in industrial production from around current levels.

The New York Times adjusted business index for the week ended March 5 was 0.7 higher than for the previous week. Improvement in electric power production, carloadings, lumber production, and cotton mill activity was partly offset by lower levels for steel output and automobile production.

Steel

New steel orders increased moderately during the week ended March 3, according to confidential reports from the U. S. Steel Corporation. Orders received by this corporation rose to the equivalent of a 33 per cent production rate, as compared with the equivalent of a 28 per cent rate during the two previous weeks. Actual production of the U. S. Steel Corporation is being closely geared to orders, running at 30 per cent of capacity during the week ended March 7, as compared with 28 per cent during the previous week.

The automobile situation

Retail sales of automobiles, according to General Motors' sales reports, improved during February, and trade reports indicate that the trend has continued into March. Used car sales

have been given a strong impetus by the concerted drive made by manufacturers and dealers this week, which has been successful in liquidating used car inventories and providing new cash for dealers. The Ford Motor Company, considered fairly representative, reports total used car sales of $4,600,000 during the first two days of the drive, reducing dealers' inventories by $2,800,000. During these two days an average of about 10,000 used cars per day were sold, as compared with 3,400 cars per day during the ten days previous.

Ward's Reports state that at present there are about 800,000 units in used car stocks, representing a wholesome reduction from the considerably higher totals prevailing at the beginning of the year, but still enough to seriously impede dealers in stocking new cars. The used car stocks are estimated as about 200,000 in excess of normal, hence this figure was set as the minimum goal of the sales drive. Partial returns show strong possibility that this goal will be reached. In addition to putting increased cash in dealers' hands, so normal new car buying can develop, the drive is expected to "trade up" used-car buyers into the more recent models, and strengthen used car prices.

A seasonal upturn in automobile production got under way this week, with increased schedules at the plants of all three leading producers, but the rise of 3,000 units was less than the usual seasonal increase, and less than had earlier been expected in the trade. Ford is lagging behind the other producers, with an output only one-half that of General Motors, as compared with an output in January exceeding that of General Motors.

The lumber situation

Lumber production, seasonally adjusted, has been steadily increasing since the low was made early in January (See Chart 1), and a continued high level of new orders and shipments in relation to current production points to a continuation of the upward trend.

For the first two months of 1938, the total of new orders reported by the National Lumber Manufacturers' Association was 34 per cent above production, and actual shipments of lumber were reported at 22 per cent above production. Lumber production during January 1938, according to the Federal Reserve Board index, was 18 per cent below that of the previous year, the February figure not yet being available.

In response to the favorable trend of new orders and the depletion of producers' inventories by shipments in excess of production, the output of lumber in recent weeks has made the

sharpest gains of the year, after allowing for the normal seasonal rise. The New York Times adjusted index of lumber production rose from an average of 53 during two weeks in mid-February to 57 during the last week of February and to 62 during the first week of March. While production during this latest week was 23 per cent lower than during the comparable week a year ago, new orders were only 7 per cent lower. Lumber production is next in importance to steel and textiles in the Federal Reserve Board index, having a weight of 8 per cent.

The paper industry, largely dependent upon pulpwood, has also shown a marked improvement during the past two months. Early in January the entire industry, exclusive of the paperboard division, was operating at about 40 per cent of capacity. By the end of January it was up to 60 per cent, and the last week in February showed operations at 73 per cent. In the paperboard division, operations during February were maintained around 60 per cent with a rising tendency.

Durable versus non-durable goods

The present recession has seen a decline in the durable goods industries more severe than that in any previous year of the present century, with the possible exception of 1907-08. The FRB index of durable goods production declined from 126 last August to 57 in January. (See Chart 2). The production of non-durable goods, on the other hand, after reaching approximately the same peak, declined only to 93 in January.

The well-known greater stability of non-durable goods production, and the fact that it tends to follow more closely the actual movement of goods into consumption, gives it some value as a forecaster of business conditions. Non-durable goods, for example, established their production peak in December 1936, declining during the first half of 1937 while the production of durable goods continued to expand. In retrospect, this provided a definite warning that the production of durable goods in August 1937 was at a level that could not be maintained, somewhat similar to the situation in 1929. Again, the false upturn in the spring of 1930 was indicated as such by the failure of non-durable goods to follow. Indications in 1931 were misleading perhaps because of the change in world economy brought on by the British abandonment of gold, but in 1932 the upturn in business was led by non-durable goods.

If general business recovery is to begin in the near future, some of the non-durable or consumer goods industries should already have begun to show improvement. As a matter of record,

the rate of activity in several consumers' goods industries has already turned upward. While the improvement is, of course, not conclusive, it is at least encouraging. The improving trend in the paper industry has already been cited.

In the leather goods industry, production rose in January to 93, according to the Federal Reserve Board adjusted index, as compared with 86 in December and 80 in November.

In the textile industry, the production of cotton goods during February showed more than the seasonal increase, according to preliminary estimates. Wool production increased more than seasonally in December, and silk production has risen sharply to an index of about 88 in February, as compared with 80 in January and 69 in December.

Effects of freight rate increase

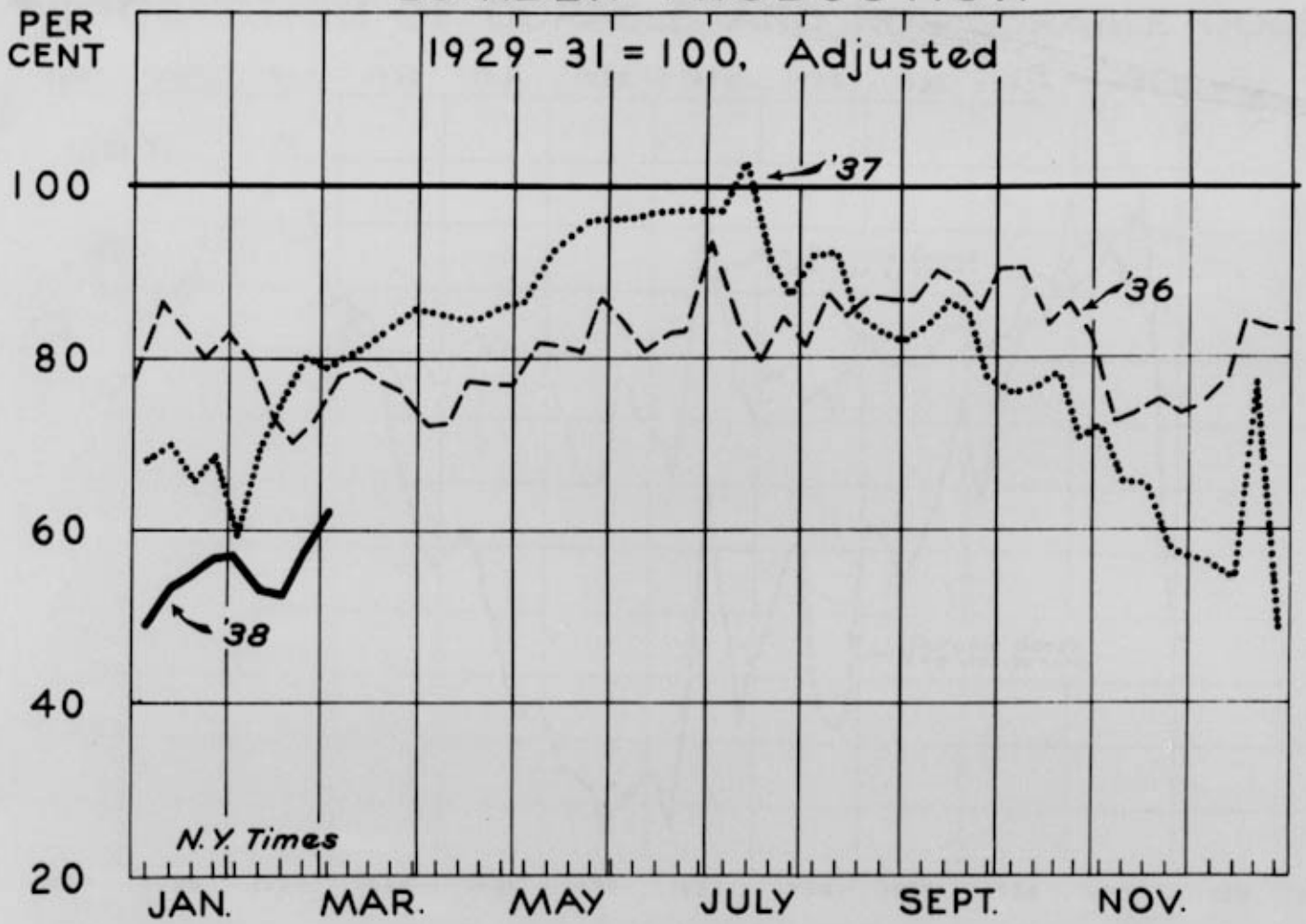
The freight rate increase recently granted the railroads should result in some increase in ordering and shipments during the next two weeks, since it is expected that the new tariffs can not be put into effect until the end of this month, owing to extensive calculations involved. An increase in immediate steel buying for prompt shipment is seen as a possibility by the Iron Age. So far as the steel industry is concerned, the increased freight costs will fall almost entirely upon the consumer of steel products, since the important raw materials of the industry (iron ore, pig iron, coke, and bituminous coal) are exempted from the increase. Steel scrap, however, is included under the higher rates.

The price situation

Commodity and stock prices have sagged somewhat this week, but on the whole have held their ground well in the face of developments that ordinarily would have reacted unfavorably on the speculative markets. The Whitney failure, a severe break in railroad bonds following the disappointing freight rate increase, reported liquidation of investments to raise money for taxes, and increased political tension in Europe, have brought no more than a moderate reaction in commodity prices, which remain generally within the range of the past three months. The prices of some commodities, notably wheat, have declined on prospects of increased supplies. Such declines should be distinguished from those resulting from reduced demand or deflationary monetary influences, which would have unfavorable implications in the business outlook.

Chart 1

LUMBER PRODUCTION

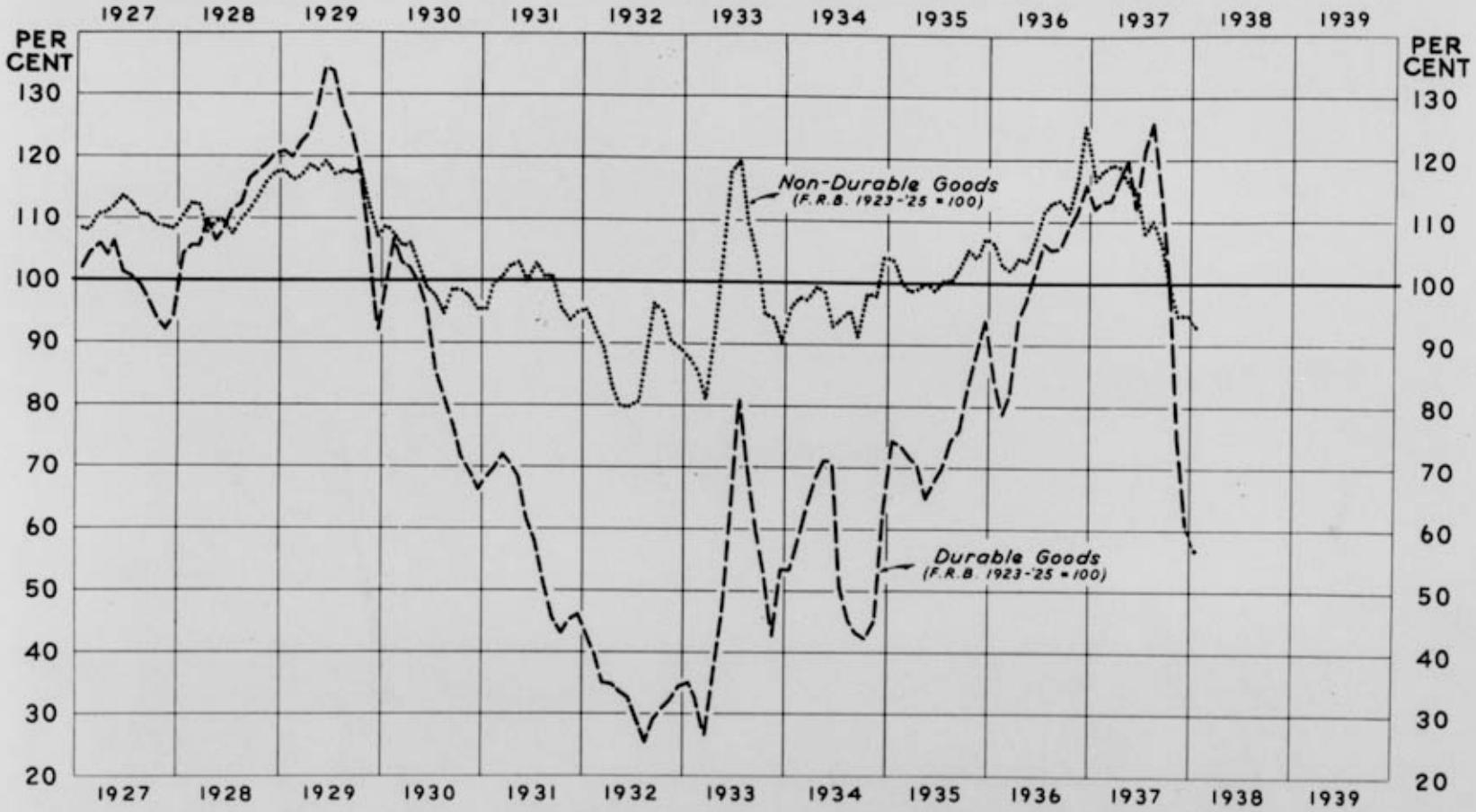


Office of the Secretary of the Treasury
Division of Research and Statistics

G-4-3-C

Chart 2

PRODUCTION OF DURABLE AND NON-DURABLE GOODS



Office of the Secretary of the Treasury
Division of Research and Statistics

C-194

PSF
Treas.

THE SECRETARY OF THE TREASURY
WASHINGTON

file personal
(1)

March 17, 1938

My dear Mr. President:

For your information I am sending you herewith our report on United States trade with China and Japan for the month of February.

Faithfully yours,

H Morgenthau Jr

The President,
The White House.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE March 17, 1938

TO Secretary Morgenthau

FROM Mr. Haas

Subject: Current trade with Japan and China

A. United States trade with Japan during February 1938. 1/

1. United States exports to Japan during the month of February were 8 percent less than during January 1938 and 22 percent less than during February 1937.

	1938	1937
February	$19,266,000	$24,847,000
January	20,981,000	22,364,000

	1937	1936
December	$16,140,000	$16,433,000
November	18,133,000	24,100,000
October	20,129,000	26,668,000
September	16,842,000	21,328,000
August	24,643,000	10,764,000

2. Exports of raw cotton to Japan were 4 percent less than in January 1938, and 50 percent less than in February 1937. Exports exclusive of raw cotton were 21 percent less than the average for the past six months.

United States exports of cotton to Japan

February 1938	$ 5,565,000
January 1938	5,817,000
December 1937	1,908,000
November 1937	797,000
October 1937	1,571,000
February 1937	11,079,000

3. Exports of iron and steel scrap were $1,668,000 in February 1938 as compared with $534,000 in January 1938. They were, however, only 30 percent of the average maintained from May to August 1937.

1/ Previous reports cover weekly figures only. This report is for the whole month of February.

United States exports of iron and steel scrap to Japan

February 1938	$1,668,000
January 1938	534,000
December 1937	479,000
November 1937	633,000
October 1937	1,148,000
September 1937	1,402,000
Monthly average, May to August 1937	5,600,000

4. Shipments of aircraft and parts, shown separately for the first time in February 1938, amounted to $244,000.

5. The following items show large increases in our exports to Japan during the month of February 1938, as compared with our exports of these items during the month of January 1938. The amounts for February 1937 are shown for comparison.

	February 1938	January 1938	February 1937
Scrap iron and steel	$1,668,000	$ 534,000	$1,391,000
Vehicles, parts and accessories	1,612,000	1,185,000	1,688,000
Fertilizer and fertilizer materials	362,000	24,000	81,000
Tobacco and manufactures	290,000	Nil	449,000
Hides and skins, raw (except furs)	226,000	22,000	159,000

The following items show decreases in our exports to Japan during the month of February 1938 as compared with the month of January 1938. The amounts for February 1937 are shown for comparison.

	February 1938	January 1938	February 1937
Raw cotton	$5,565,000	$5,817,000	$11,121,000
Petroleum and products	3,004,000	5,066,000	3,193,000
Industrial machinery	2,609,000	2,853,000	1,417,000
Copper and manufactures	1,367,000	1,883,000	1,060,000
Ferro-alloys	24,000	192,000	48,000

6. Of the total $19,266,000 of exports to Japan during February 1938, the following items account for almost all:

Raw cotton	$ 5,565,000	
Petroleum and products	3,004,000	
Iron and steel and manufactures	2,827,000	
Industrial machinery	2,609,000	
Copper and manufactures	1,367,000	
Automobiles, parts and accessories	1,337,000	
Paper base stocks	422,000	
Fertilizer and fertilizer materials	362,000	
Tobacco and manufactures	290,000	
Aircraft and parts	244,000	
Hides and skins, raw (except furs)	226,000	
Total	$18,253,000	95%
All other	1,013,000	5%
Grand total	$19,266,000	

7. United States imports from Japan decreased 23 percent during February 1938 as compared with our imports during January 1938 and decreased 53 percent as compared with February 1937.

United States imports from Japan

	1938	1937
February	$ 8,723,000	$18,384,000
January	11,342,000	17,683,000

	1937	1936
December	$11,674,000	$16,427,000
November	17,190,000	15,340,000
October	15,420,000	15,930,000
September	15,988,000	16,012,000
August	16,297,000	16,948,000

8. The imports of raw silk from Japan showed the principal decrease; imports other than raw silk decreased about $1,900,000, but individual items maintained about their same relative position.

	Raw silk	Total imports other than raw silk	Total
February 1938	$5,225,000	$3,498,000	$ 8,723,000
January 1938	5,947,000	5,395,000	11,342,000
December 1937	5,909,000	5,765,000	11,674,000

9. Of the total of $8,723,000 of our imports from Japan during the month of February, the following items account for almost all:

Silk, unmanufactured	$5,225,000	
Cotton manufactures	550,000	
Edible vegetable products other than tea	213,000	
Silk manufactures	198,000	
Hats and hat materials	196,000	
China and porcelain ware	189,000	
Perilla oil	149,000	
Fish and fish products	141,000	
Menthol	132,000	
Pyrethrum flowers	117,000	
Tea	103,000	
Wood and manufactures	94,000	
Earthenware and stoneware	92,000	
Total	$7,399,000	85%
All other	1,324,000	15%
Grand total	$8,723,000	

B. United States trade with China during the month of February 1938.

1. United States exports to China and Manchuria for the month of February 1938 decreased 24 percent from January 1938 but increased 16 percent over February 1937. Exports to North China and Manchuria increased 15 percent while exports to Shanghai, South China and Hong Kong decreased 37 percent.

United States exports to

	North China and Manchuria	Shanghai, South China and Hong Kong	Total
February 1938	$2,417,000	$3,690,000	$6,107,000
January 1938	2,101,000	5,892,000	7,993,000
December 1937	2,748,000	5,199,000	7,947,000
Whole month of February 1937			$5,262,000

2. Leading export items to China

a. To North China and Manchuria:

	February 1938		January 1938	
Iron and steel and manufactures	$ 649,000		$1,074,000	
Cotton, unmanufactured	545,000		130,000	
Vehicles, parts and accessories	287,000		285,000	
Petroleum and products	275,000		270,000	
Copper and manufactures	232,000		68,000	
Industrial machinery	117,000		104,000	
Wood and paper	103,000		15,000	
Total	$2,208,000	91%	$1,946,000	93%
All other	209,000	9%	155,000	7%
Grand total	$2,417,000		$2,101,000	

b. To Shanghai, South China and Hong Kong

	February 1938		January 1938	
Automobiles, aircraft, parts and accessories	$ 988,000		$1,777,000	
Tobacco and manufactures	430,000		269,000	
Firearms and ammunition	384,000		546,000	
Printed matter	240,000		9,000	
Iron and steel and manufactures	188,000		225,000	
Petroleum and products	185,000		424,000	
Ginseng	145,000		1/	
Edible vegetable products	142,000		207,000	
Cotton, unmanufactured	111,000		Nil	
Total	$2,813,000	76%	$3,457,000	59%
All other	877,000	24%	2,435,000	41%
Grand total	$3,690,000		$5,892,000	

3. United States imports from China and Manchuria declined about 18 percent in the month of February 1938, as compared with January 1938. Imports from North China declined about 9 percent and imports from Shanghai, South China and Hong Kong declined 21 percent.

1/ Not shown separately in January 1938.

United States imports from

	North China and Manchuria	Shanghai, South China and Hong Kong	Total
February 1938	$ 978,000	$2,685,000	$3,663,000
January 1938	1,069,000	3,401,000	4,470,000
December 1937	1,200,000	4,395,000	5,595,000
Whole month of February 1937			$11,804,000

4. Leading imports from China

a. From North China and Manchuria:

	February 1938		January 1938	
Textile materials and manufactures	$347,000		$ 289,000	
Bristles	218,000		221,000	
Perilla oil	182,000		80,000	
Sausage casings	85,000		25,000	
Furs and manufactures	56,000		34,000	
Total	$888,000	91%	$ 649,000	61
All other	90,000	9%	420,000	39
Grand total	$978,000		$1,069,000	

b. From Shanghai, South China and Hong Kong

	February 1938		January 1938	
Tung (wood) oil	$ 689,000		$ 886,000	
Tin, ore, bars, etc.	622,000		311,000	
Bristles	234,000		285,000	
Flax, hemp and ramie and manufactures	231,000		470,000	
Edible vegetable products	159,000		327,000	
Hats and hat materials	105,000		145,000	
Cotton manufactures	101,000		131,000	
Chemicals and related products	76,000		79,000	
Total	$2,217,000	83%	$2,634,000	77
All other	468,000	17%	767,000	23
Grand total	$2,685,000		$3,401,000	

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TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

PSF Treas.

DATE March 21, 1938

TO Secretary Morgenthau

FROM Mr. Haas

Subject: The Business Situation, week ending March 19, 1938

Conclusions

Business activity in the United States, exclusive of the possible effects of this week's developments in Europe, continues steady with evidence of improvement in several directions. Improving business in certain lines during the week ended March 12 is indicated by a continued greater than seasonal rise in lumber production, by a rise in carloadings when a decline was to have been expected, and by greater than seasonal improvement in steel and cotton mill activity. Electric power production, however, showed more than the seasonal drop, and the increase in automobile production was less than would normally have been expected.

Following a three-month period of business stability, during which material progress has apparently been made in reducing inventories and adjusting business operations, conditions in this country favor a gradual improvement in business activity from present levels. With no unfavorable outside influences, the improving trend should continue through the summer and gain momentum during the second half of the year. The possibility of a setback during the summer has been materially reduced since the continuation of a low level of business during February and early March while inventories in various industries were being thoroughly liquidated tends to insure against a decline later. A secondary decline would likely have developed during the summer if a greater than seasonal spring recovery had lifted production above the level of consumer demand.

This week, however, a new factor has come into the picture on the unfavorable side, the effect of which can not yet be determined. The sudden turn in developments in Europe, which has led to widespread fear of a major war, introduces the possibility of further commodity price deflation and curtailment of long-term commitments at a time when business in this country is especially sensitive to either favorable or unfavorable influences. This may prove sufficient to offset, or more than offset, the favorable influences that have been developing within our own economy.

Effect of European developments

The shock to hopes of European peace which the annexation of Austria and developments in Spain and Lithuania have provided this week, introduces a new factor into our business outlook which is difficult to evaluate but potentially unfavorable. Uncertainty in regard to the future may lead to curtailment of long-term commitments in this country. Fear of war in countries now relatively prosperous would tend to halt industrial buying, thereby reducing the world demand for commodities, and weakening the price structure. A decline in foreign currencies against the dollar, particularly sterling, would also act as a deflationary price influence in this country and tend to reduce our export demand. This was the key situation in the fall of 1931, when England's abandonment of the gold standard helped to force this country into deeper depression. The decline in security prices and weakening in foreign currencies this week is probably exerting some deflationary pressure on commodity prices here and contributing to business uncertainty abroad.

Although war demand might be expected in the long run to raise commodity prices in this country, its immediate effect would be minimized by several offsetting factors:

(1) While the rearmament movement will undoubtedly be speeded up throughout Europe by this week's developments, as evidenced in announcements already made by England, France, Sweden and Yugo-Slavia, it will require time for these to effect an increase in commodity buying.

(2) A decline in foreign currencies against the dollar would tend to divert buying from this country to those countries whose currencies had weakened.

(3) The present world supply situation for many commodities is less favorable than that existing last winter, when competition between armament demand and industrial demand at a time of light supplies brought a speculative boom in commodity prices.

(4) The possibility of severe business curtailment in Europe in the event of war would reduce the industrial demand for commodities, which in the aggregate is more important than the armament demand. Industrial activity in both England and France declined substantially during the year following the outbreak of war in July, 1914, and commodity prices in this country, except for a few exceptions, did not start to rise until the early part of 1915.

The security markets

Comparative steadiness in the American security markets this week (Chart 1), in contrast with the violent declines which have occurred in markets abroad and in Canada, is believed to reflect (1) a strong fundamental situation in our markets growing out of the heavy liquidation which they have already undergone, as well as the improving business outlook, and (2) the greater safety for investment funds provided by our markets, as against those in any other country of the world.

The effect of a major conflict upon our security markets seems unpredictable, especially in view of the possibility of irrational liquidation from domestic sources.

The price situation

Prices of sensitive commodities have sagged slightly this week as foreign exchange rates weakened and security markets declined, though the undertone has remained generally steady. Cotton prices, which are particularly sensitive to fluctuations in sterling exchange because of the competitive balance between American and British-grown cotton, declined sharply on Friday with a drop of about 2 cents in sterling, but later recovered most of the loss as sterling improved. Further declines in rubber and wheat resulted largely from prospects of increasing supplies, while hides, cocoa, and some other commodities were adversely affected by general weakness in the security markets.

The trend of commodity prices, in our opinion, will have an important bearing on the trend of business activity over the next few months. While prices during the past three months have apparently been establishing a foundation for a general rise, and have held up well this week under the weakness in security prices here and abroad, the war developments in Europe introduce a new factor, the effect of which is difficult to estimate.

Current business developments

Steel operations

Operations in the steel industry this week increased 2 points to 32 per cent of capacity, which, with the exception of one week in January, was the highest rate since the week of November 15. New orders for steel appear slightly higher than current production. Orders received by the U. S. Steel Corporation during the week ended March 10 were maintained for the second successive week at a level equivalent to about 33 per cent of capacity, while operations of the corporation last week were at 29 per cent. Current predictions in the steel trade are that the spring peak in steel operations may not occur until June, and that the operating rate for the second quarter should average around 42 per cent of capacity.

While an upturn in steel operations has occurred in 4 of the 6 leading districts, the output in the Youngstown district has decreased because of an easing in the tin plate demand (See Chart 2), and output has remained unchanged in the relatively small Buffalo district. An easing of steel scrap prices recently in most districts (shown on the chart) appears somewhat unfavorable.

Steel buying is held to minimum levels by the knowledge of consumers that prices on steel products will not increase and may decline. They also know that with the present low operating rate there will be no difficulty in getting deliveries when needed. Hence present conditions favor a continuation of hand-to-mouth buying policies.

In the meantime, inventories of steel consumers are going down steadily, according to reports of sales executives of the steel companies. In this connection, it is pointed out that companies reporting their inventories as adequate or excessive generally are measuring them against the current low levels of sales, and any sharp increase in sales would find inventories too low.

Retail Sales

Department store sales continue to improve gradually from the low level reached the latter part of January, but on the whole the improvement has not been as much as the normal seasonal increase. Sales during the week ended March 12 were 15 per cent below those for the same week last year, a slightly more favorable comparison than in the previous week.

Comparisons with last year are likely to be increasingly unfavorable this month, especially during the week ending March 26, since sales in March last year were stimulated by pre-Easter buying. Easter is three weeks later this year, which will throw the heaviest retail buying into April. Weekly department store sales during that month should therefore make more favorable comparisons with last year.

Automobile production

The estimated production of automobiles this week increased only 200 units to a total of 57,600, apparently reflecting the slowness of expansion in retail buying and the previous stocking of dealers by the automobile companies. Ward's Reports mentions that production is remaining slightly behind the pace of retail deliveries. Although the success of the used car sales drive has apparently not yet been reflected in new car buying, it is conceded by automobile companies to have met all expectations, according to early tabulations, and final figures may prove even more favorable.

Processing tax

A factor which would tend to stimulate near-term business activity is seen in the introduction of a processing tax proposal by Senator Pope of Idaho, to cover cotton, synthetic yarn, corn, wheat, rice and tobacco, intended as an amendment to the revenue bill of 1938. Since it contains no provision for a floor tax on manufactured products, its effect will be to stimulate buying in advance of the effective date of the tax, at the expense of later business. Its most important effect would be temporarily to increase activity in the textile industry.

Carloadings

An improvement in carloadings which began in the previous week continued in the week ended March 12, contrary to the seasonal trend which is downward at this period of the year. Miscellaneous carloadings, usually considered more indicative of business trends, made a better showing than total loadings.

Construction

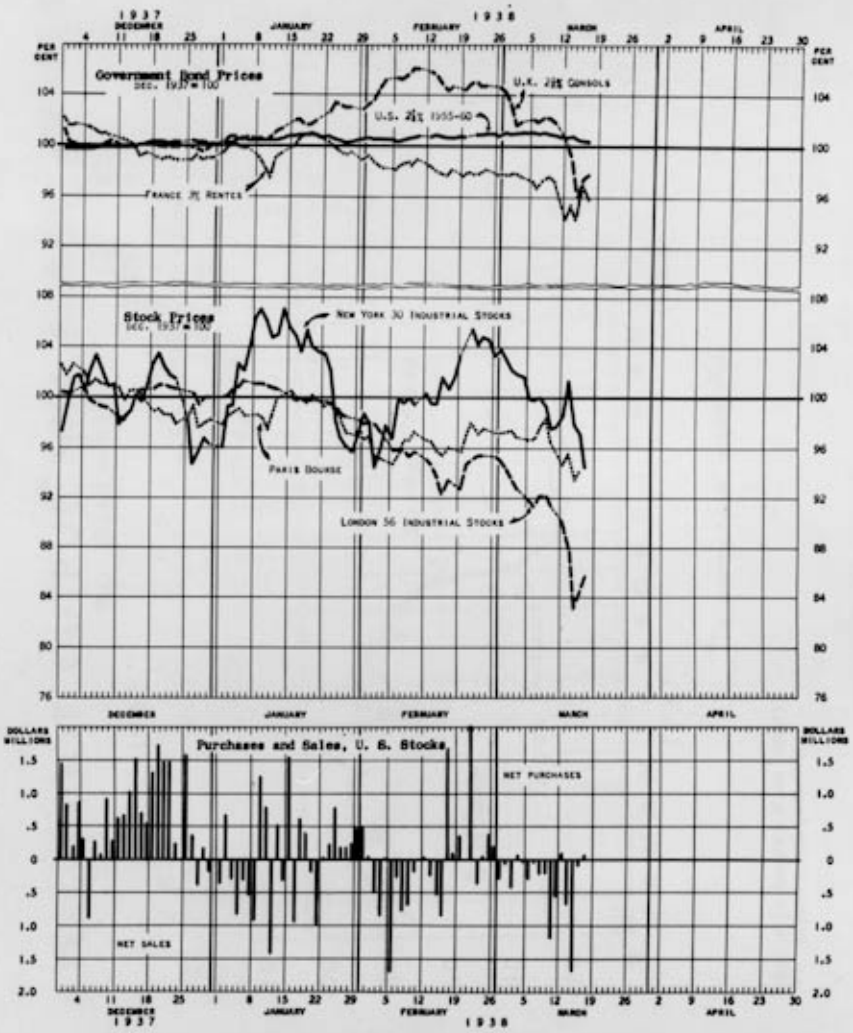
Residential construction during February showed a greater than seasonal increase from the low January level, with an improving trend throughout the month. The daily average value of contracts awarded increased from $1,448,000 in January to $1,819,000 in February, with the last period of the month averaging $1,949,000. A sharp seasonal increase in contract awards usually occurs during March and April.

Another greater than seasonal rise in lumber production during the week ended March 12 to an index (adjusted) of 64.6 as compared with 62.1 during the previous week provides further confirmation of an increasing demand from the building industry.

Prices of building materials resumed their downward movement during the week ended March 5, following a short period of stable quotations. The Department of Commerce index, covering a group of leading construction materials, dropped 0.3 to 90.8 in that week. This compares with a peak of 96.7 reached last July.

Chart 1

SECURITY PRICES IN U.K., FRANCE AND U.S. AND FOREIGN TRADING IN AMERICAN STOCKS



Office of the Secretary of the Treasury
Division of Research and Statistics

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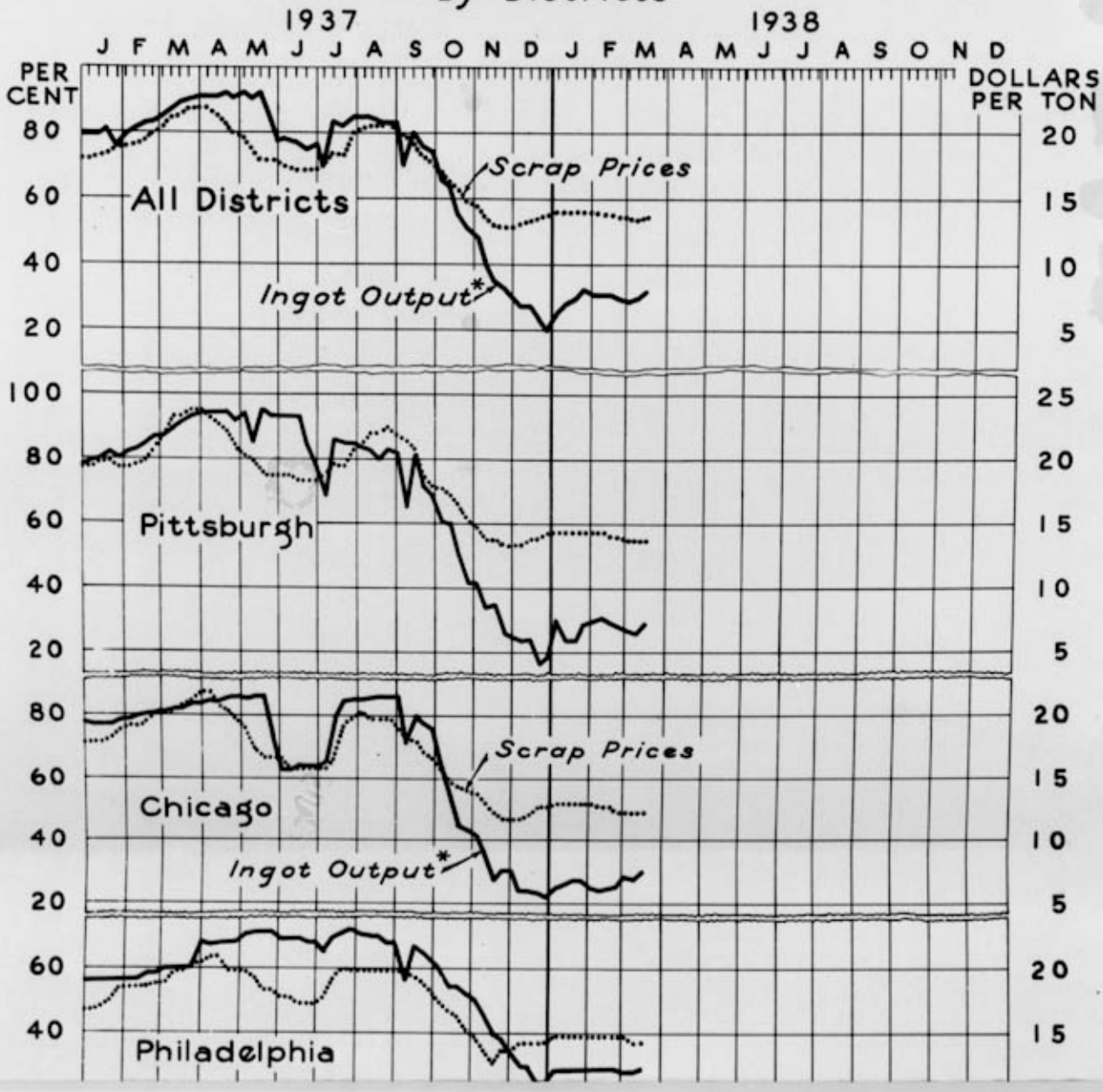
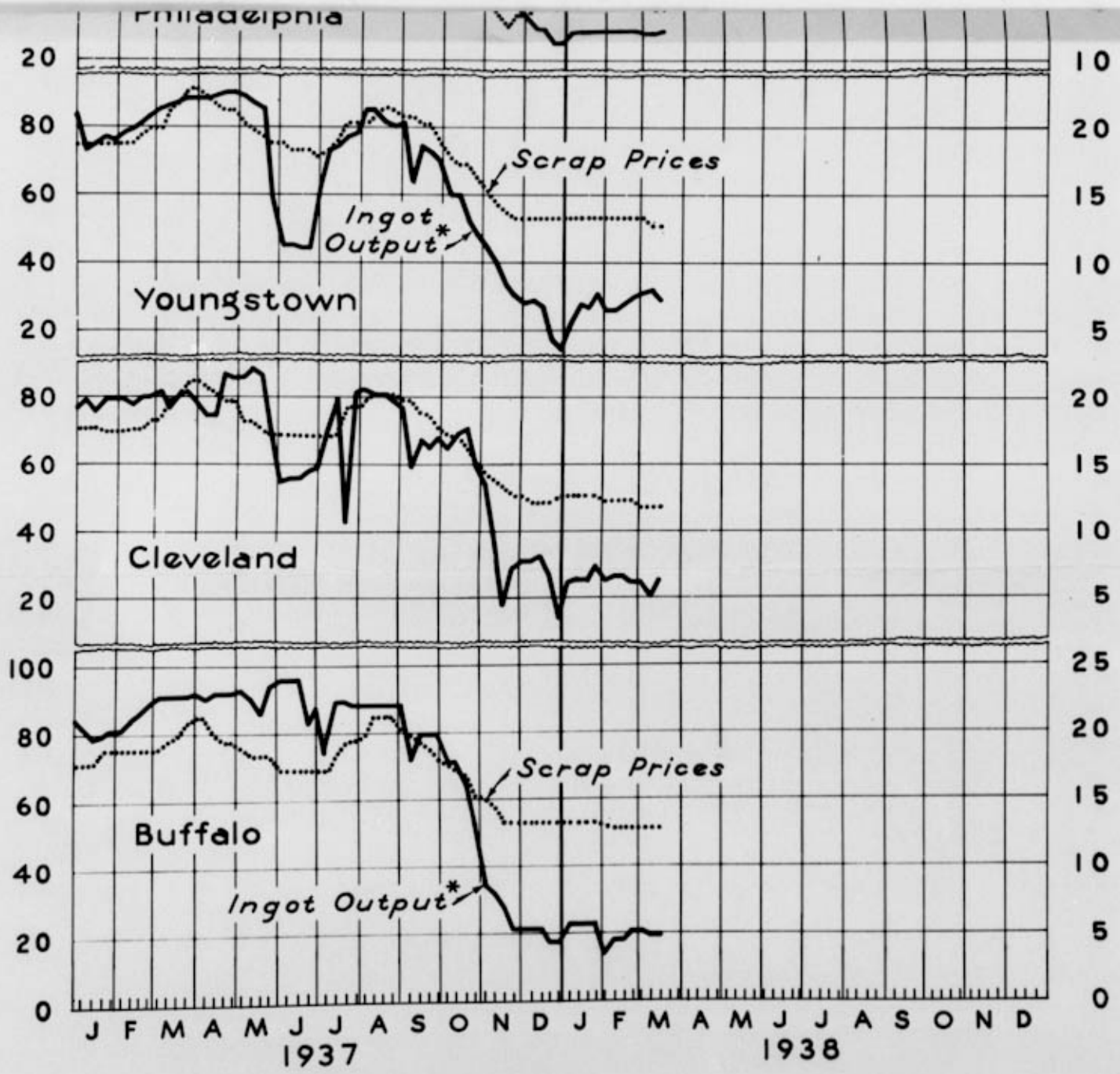
STEEL INGOT OUTPUT* AND SCRAP PRICES

By Districts





*In percent of capacity

Office of the Secretary of the Treasury
Division of Research and Statistics

C-190-1

Chart 2

OFFICE OF THE ADMINISTRATIVE
ASSISTANT TO THE SECRETARY

PSF Treasury

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TREASURY DEPARTMENT

WASHINGTON

March 30, 1938.

THE WHITE HOUSE
MAR 30 11 25 AM '38
RECEIVED

My dear Mr. President:

By direction of the Secretary, I am enclosing for your information the Treasury's current statistical report of business conditions.

Respectfully,

Wm. H. McReynolds

Wm. H. McReynolds

The President,

Warm Springs, Georgia.

Enclosure

COPY

[redacted]

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE March 28, 1938

TO Secretary Morgenthau

FROM Mr. Haas

Subject: The Business Situation, week ending March 26, 1938.

Conclusions

Business factors in this country, taken by themselves exclusive of European developments, continue to point to an improving trend following the stable base which has been established over the past several months, with upturns in steel activity and building construction and, during the past week, a marked improvement in automobile retail sales, contributing to a strengthening of the domestic business situation.

The steel operating rate (Chart 1) has increased to 35.7 per cent of capacity, a new high since November, while increased operating rates in the near future are suggested by a general upturn in new steel orders. Construction in all categories is showing definitely more than seasonal improvement. Contract awards east of the Rockies showed a greater than seasonal rise during the first half of March, following their favorable trend in February, and building permits on the Pacific Coast during the first two months have confirmed this trend. A further improvement seems indicated by the continued heavy inquiry for F.H.A. loans, which has broadened to include large scale housing projects.

At present, however, the favorable factors supporting the business trend in this country are forced to contend with unfavorable developments abroad, and the resulting trend of business over the coming months will necessarily represent a balancing of the two forces. The tense international situation arising from the German coup in Austria has thrown into the business picture a factor of great, but immeasurable, potentialities. By adding greatly to uncertainty over the business outlook, particularly since it has precipitated declines in world stock and commodity markets, it provides an added reason to businessmen for postponing new commitments and awaiting a clarification of the general outlook.

In recent months the business recession in the United States has constituted a drag on business activity in foreign countries. Now that we have apparently completed our adjustment and are ready to move ahead, the situation has become reversed, and business uncertainty abroad is constituting a drag on our own recovery.

The steel situation

The steel industry is currently providing a better undertone to business activity, with operations increased to 35.7 per cent of capacity representing the highest rate since last November. (Chart 1). The Iron Age this week reports that "probably for the first time since the first half of 1937 orders are running in excess of shipments." Production has gained a total of 7 points since the first week of March, largely because the arrival of spring weather has expanded the sale of farm implements and wire products in agricultural areas, while an increasing demand has come from a diversified list of consumers whose steel stocks are nearing exhaustion.

A further rise in output seems probable in coming weeks. The U. S. Steel Corporation, operating this week at 32 per cent of capacity, reports new orders during the week ending March 17 at the equivalent of 42 per cent. Trade reports indicate that the volume of orders during the current week is holding near the high level of the previous week.

The volume of steel buying from the automobile industry, which normally consumes more steel than any other industry, has apparently not yet shown any appreciable increase. Automobile production has declined slightly this week, when a seasonal rise was to have been expected, apparently because of a disappointing improvement in retail sales early in the month and a desire to reduce new car stocks. The reducing of dealers' stocks may be a prudent move to prepare for price reductions or the introduction of new models. Retail sales of automobiles during the sales period just completed, however, have risen sharply from the low levels of earlier in the month, according to reports in the trade.

Both factory and dealer stocks of new cars as reported by the General Motors Corporation on March 10 were very slightly below those on the same date in 1936, though substantially above the strike-depleted stocks of 1937. Used car stocks of 245,900 units on that date, however, compared with 232,200 units in 1936 and 214,200 in 1937.

The building situation

The volume of construction has continued to rise, improving further during the first half of March after showing a greater than seasonal upturn in February, with all categories sharing in the improvement. The Dodge figures on contract awards for the first half of March show a daily average not much below the

comparable figures for last year, totalling $7,858,000 as compared with $8,086,000 in 1937. Residential awards show a daily average of $2,807,000 as compared with $3,264,000 last year.

Data for the Pacific Coast, not covered in the Dodge figures, provide confirming evidence of an improved trend of construction. January and February building permits in this section were 4.4 per cent higher than in 1937.

A continued heavy inquiry for F.H.A. housing loans, which has broadened to include large-scale housing projects, provides further evidence of this trend. The aggregate value of home mortgages selected for appraisal during the week ended March 19 rose to a new high of $21,293,061, about 55 per cent of this representing homes to be constructed. The similar figure for last year was $16,879,710, though a strict comparison is not possible because of greater inducement under this year's plan.

Reports of larger buying by building material dealers, and reports that deliveries of linseed oil to paint makers in March are running 50 per cent heavier than in February, tend to indicate an increasing demand from the building industry.

It may also be significant that shipments of cement during February of this year showed a decrease of only 11.4 per cent from 1937, while production was 32.9 per cent lower. Stocks of cement at the end of February, as reported by the cement industry, were 2.8 per cent lower than a year earlier.

The railroad situation

With railroad earnings seriously depressed, and second grade rail bonds at new lows for the present century, the fear of further railroad receiverships and a further decline in railroad securities has a retarding influence on business recovery, while the resulting low level of rail equipment buying is tending to retard improvement in the steel industry.

The railroad situation provides one point of attack on the present business recession. In some quarters an upturn in the securities markets is expected to be first indicated by an improvement in railroad securities. There is no doubt that any practical method of providing immediate aid to the railroads, which would permit them to increase their expenditures for equipment and maintenance, plus a long-term program which would give people confidence that the railroad problem would in time be solved in a practical way, would have a strongly favorable effect upon business sentiment.

Influence of foreign situation

Developments this week have tended to confirm our apprehension over the effect of the recent turn in European affairs on our business outlook. A sharp break in our stock market was initiated on Tuesday when Great Britain announced a decision not to interfere with German aggression in eastern Europe, though other factors contributed to the severity of the decline. Commodity price indexes have receded to new lows, and reports have begun to appear indicating a retarding effect of European developments on business. Activity in the British textile markets, for example, has slowed down abruptly due to the rise in the dollar and the uneasy international situation.

The close relationship between the commodity trend in this country and recent international developments as reflected in foreign exchange rates may be seen by comparing the Dow-Jones commodity futures index, which is quickly responsive to changes in market conditions, with the trend of sterling exchange. (See Chart 2). A decline in sterling affects prices in two ways, (1) as an indication of further weakness in the international situation, and (2) through its effect in reducing the purchasing power of the countries of the sterling area for products from this country, while making it easier for them to undersell us in the export market.

As shown in Chart 2, the influence of recent events on sterling exchange and on commodity prices can be traced almost day by day. Sterling started to weaken and prices began to turn down from their previous rising trend around March 1, when the critical situation between Austria and Germany began to appear in the news. It was on this date that Germany stated its intention to protect the millions of Germans in Austria and Czechoslovakia by force if necessary. On the following day Great Britain announced an expansion of its defense budget to 55 percent above that of the previous year, which brought heavy pressure on sterling and a decline in commodity prices. The invasion of Austria occurred on March 11, precipitating a general weakening of European currencies and a general decline in prices in the futures markets.

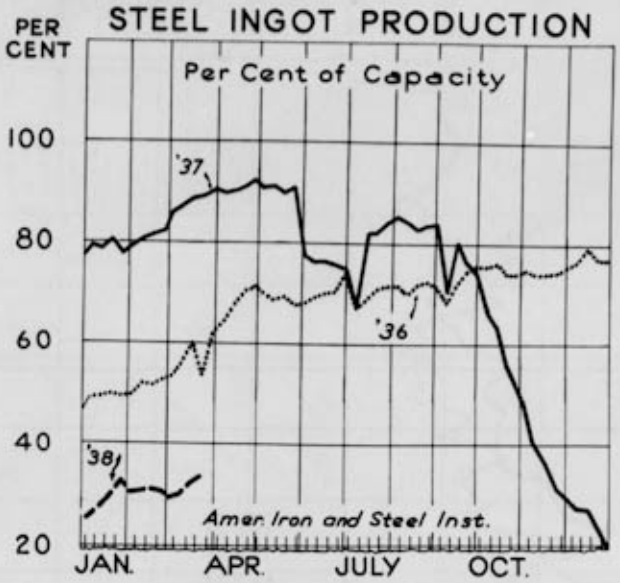
The importance of the foreign situation in the commodity price picture is shown by the fact that this influence is being stressed by companies engaged in international trade. The following quotation from the March 24th market letter of Volkart Brothers, an international cotton company with headquarters in Switzerland, explains this clearly:

"The devaluation of the French franc, followed by the sharp devaluation of the Brazilian milreis, and more recently, the devaluation of the Mexican peso, have all contributed to the unsettling of world markets and the lowering of world commodity prices in terms of dollars. The announcement that Great Britain would increase her armament program caused the pound sterling to decline in relation to the dollar, and there are many international economic students of the opinion that the pound will decline further. While the Japanese yen is a controlled currency, it is at the same time tied to the pound sterling, and should the pound decline further, it would mean that practically all of the major trading currencies would be in a relative, or lower, relationship to the dollar than existed in 1931/32, unless preventative measures are adopted. The devaluation or decline of any currency tends to lessen the purchasing power of the respective country, and whether that country be Mexico or Great Britain, its effect is registered directly or indirectly in American cotton prices."

During the current week, the trend of international developments has continued in a direction unfavorable to our business outlook. Political events in Czechoslovakia have been disturbing, with the unity of the government threatened by increasing strength of the German minority, and bonds of this country on European markets have broken sharply. The dollar has strengthened in foreign exchange dealings despite a break in the New York stock market, which would normally tend to weaken it. Continued foreign buying of our securities throughout the week, and a further movement of capital to this country, contributed to a strengthening of the dollar. The security buying and inflow of capital appear unfavorable both as indicating the uncertainty prevailing abroad and as further unsettling the price structure by causing a weakening in foreign currencies.

Depending as it does on unpredictable political developments abroad, the probable effect of the changed foreign situation upon our business outlook is not susceptible to definite analysis. The trend of commodity prices over the next several months should provide an important indication of the seriousness of the international situation as a factor in our business situation.

Chart 1


STEEL INGOT PRODUCTION
PER CENT
Per Cent of Capacity
100
80
60
40
20
'37
'36
'38
Amer. Iron and Steel Inst.
JAN.
APR.
JULY
OCT.

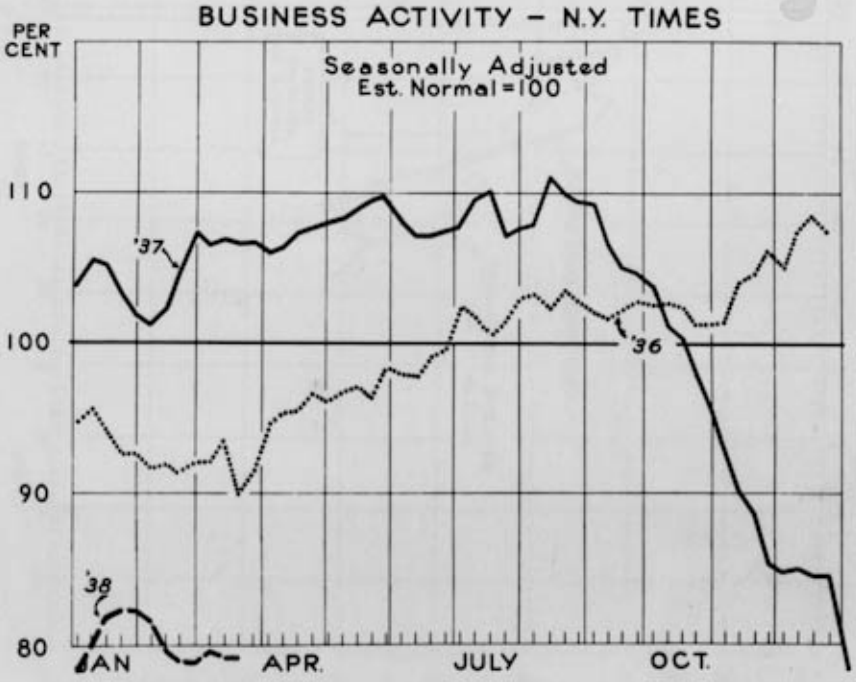
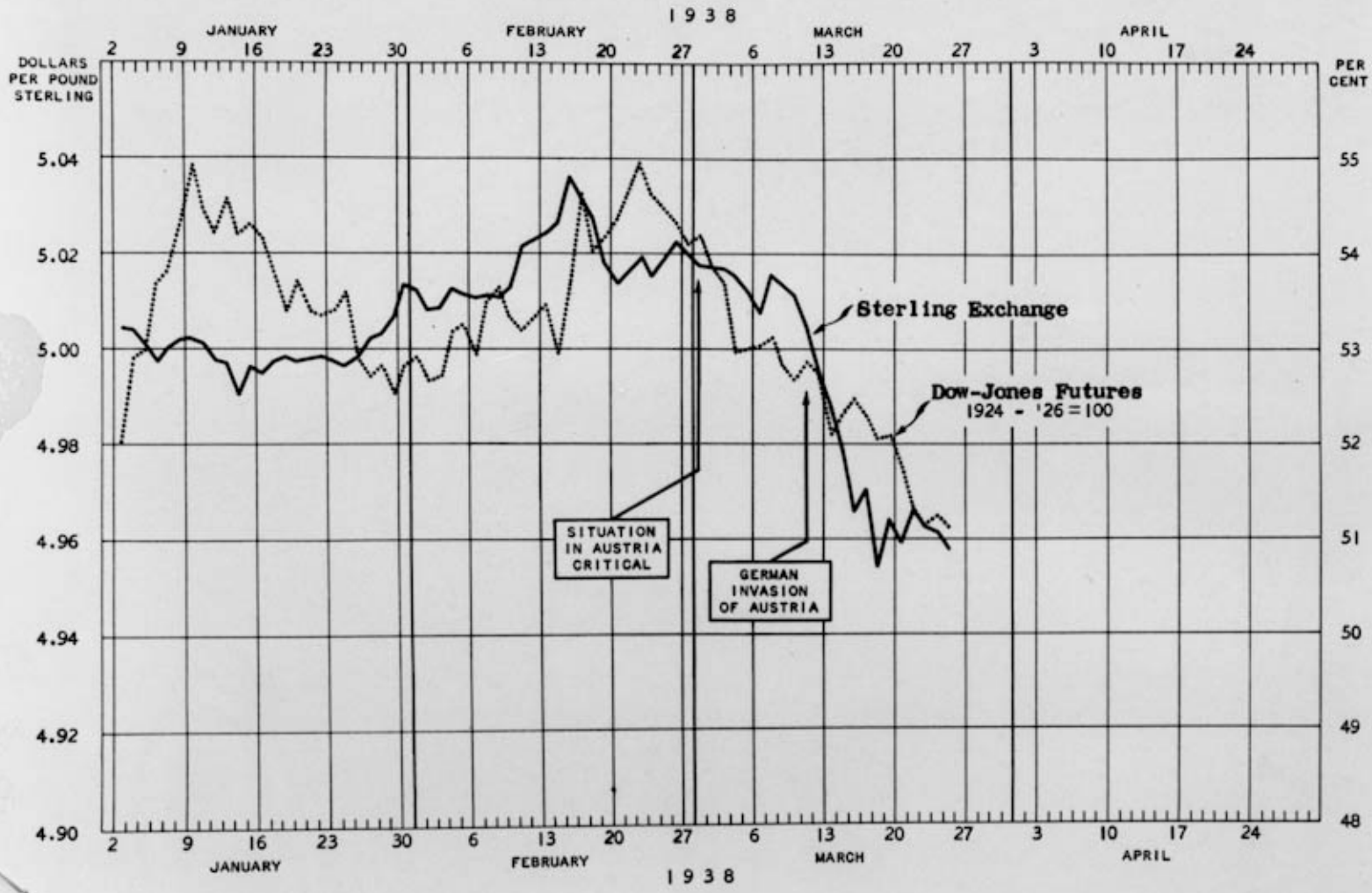

BUSINESS ACTIVITY – N.Y. TIMES
PER CENT
Seasonally Adjusted
Est. Normal=100
110
100
90
80
'37
'36
'38
JAN
APR.
JULY
OCT.

Chart 2

STERLING EXCHANGE AND PRICES OF COMMODITY FUTURES



Secretary of the Treasury
Research and Statistics

M - 68

PSF
Treasury

19·OBSERVATORY·CIRCLE

Dear Mr. President:—

This morning Secretary Morgenthau talked with Cochran in Paris. He then called me and asked me to deliver to you this evening a copy of Cochran's cable describing his (Cochran's) conversation with Blum. I am enclosing a copy as instructed.

Faithfully yours,
Wayne C. Taylor

April 3, 1938.

— Note: original of confidential code. Please return to State Dept

KLP

This telegram must be closely paraphrased before being communicated to anyone. (c)

Paris

Dated April 3, 1938.

Rec'd. 2:55 p.m.

file personal

PSF Treasury

Secretary of State,

Washington.

526, April 3, 5 p.m.

STRICTLY CONFIDENTIAL FOR THE SECRETARY OF THE TREASURY FROM COCHRAN

Reference my 404, March 14, 10 p.m.

At Blum's request I called at his home at noon today where he received me alone. He told me that he was mindful of the kind message which Secretary Morgenthau had sent to him through me. Consequently he now desired to reciprocate to some extent by letting the Secretary of the Treasury know in strict confidence his financial proposals which are now being printed, which will be studied by the Cabinet on Monday, submitted to the Financial Committee of the Chamber Monday evening and presumably debated in the Chamber of Deputies on Tuesday afternoon.

The Prime Minister said his plans do not include exchange control. Nevertheless there will be certain provisions

#526, April 3, 5 p.m., from Paris

provisions in that direction. First, there will be exacted a certain amount of voluntary self-discipline in foreign exchange matters. Secondly, Bank of France will exercise a strict watch over the transactions of private banks.

Blum insisted that France cannot let her gold stock decline further or let the franc depreciate indefinitely without interposing firm resistance through the stabilization fund. He said that his plans will involve inflation. Unless measures are taken to break the vicious circuit this creation of new means of payment is likely to result, as during the past two or three years, in new francs going into gold or foreign exchange. Consequently the two checks above mentioned will be applied. Should they prove ineffective then genuine exchange control would be the necessary next step.

Blum said that he would not avail himself of Secretary Morgenthau's much appreciated initiative. His present plan does not involve exchange control and he is abiding strictly by the terms of the Tripartite Agreement.

WILSON

KLP

~~CONFIDENTIAL~~ file PSF Treasury

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: April 5, 1938, noon

NO.: 534

RUSH

~~STRICTLY CONFIDENTIAL.~~

FROM COCHRAN. FOR THE SECRETARY OF THE TREASURY.

I refer to your telegrams No. 199 of April 4, noon, and No. 201 of April 4, 6 p.m.

At 11:45 this morning I was received by Prime Minister Blum alone in his home.

I told Mr. Blum that Secretary Morgenthau had instructed me, in view of certain recommendations contained in the new financial plans of the French Government, to make available to him full details of the methods used by my Government in supervising transactions in foreign exchange. I explained to the Prime Minister that the Secretary of the Treasury had thought that at this time such material might be of particular interest to his experts.

I asked the Prime Minister to consider our offer of assistance gained from our own experience as evidence of the American Government's continuing desire for close cooperation with his Government; in addition I told him that I was under instructions and would be immediately available to discuss with his staff any details of the American

~~CONFIDENTIAL~~

American methods which may need clearing up.

Mr. Blum told me that this afternoon he was to appear before the Chamber and he was sure that this body would pass his program; "using the axe" - as he put it - would then be up to the Senate.

END SECTION ONE.

WILSON.

EA:LWW

PARAPHRASE OF TELEGRAM RECEIVED

NO.: 534 (Section Two)

FROM: American Embassy, Paris

DATE: April 5, 1938

Thus he is still expecting that his Government will be forced out by the Senate on his financial program. He said, however, that he was aware of the fact that it would have made the Senate much happier if the bill had been wrecked in committee or in the Chamber of Deputies by the Radical Socialists. The debate will be somewhat general under the circumstances, and Blum stated that it will not be necessary for him to go into technical details such as those involved in supervision of exchange transactions. He therefore returned to me the extracts of our measures which I had given him. He informed me that if his Government survived, he certainly would take advantage of the offer made by Secretary Morgenthau and would request me to furnish his assistants with all the technical information pertaining to our experience.

Blum requested me to convey to Secretary Morgenthau his deepest appreciation of the Secretary's further offer of assistance. He stated that our constant loyalty and kindness toward him had genuinely moved him. As a result, he had given serious consideration to including in his program

program

a measure looking toward the settlement of the war debts. He said that he would have done so if he had been convinced that the American public would have favorably received such a step and if he had had a better chance of succeeding with his general program. In response to a remark from me that his program was already quite a comprehensive one, he replied laughingly that it really was "Rooseveltian".

(END OF MESSAGE)

WILSON

EA:EB

BST
Treas.

File personal

TREASURY DEPARTMENT

WASHINGTON

April 12, 1938

TO THE SECRETARY:

In submitting this memorandum on the estimated financial requirements for the twelve months beginning July 1, 1938 and ending June 30, 1939, I have made the following assumptions:

1. That the business recession will cause a reduction in revenue of at least $842,000,000 below the estimates contained in the 1939 budget (Federal Reserve Board index of 80);

2. That for the same reason it will be necessary to increase recovery and relief expenditures by $1,390,000,000, to a total of $2,528,000,000;

3. That other expenditures will have to be increased because of the passage of the CCC bill, the Farm bill, National Defense Bill, etc., aggregating $212,000,000;

4. That (according to Mr. James Roosevelt) the President contemplates asking Congress to appropriate a further $190,000,000 (90) for roads and a further $150,000,000 (100) for flood control, & reclamation, and to reopen P.W.A., or authorize some similar organization to make grants, in the additional sum of $450,000,000, or a total of $790,000,000 (640) for these purposes;

5. That the total estimated revenue for the fiscal year 1939 on the basis of the Federal Reserve business index of 80, will

amount to $5,077,000,000, and that the total expenditures, including the extraordinary expenditures set out above and not included in the budget, will amount to $9,261,000,000, leaving a net deficit of $4,184,000,000, an increase over the budget estimate of $3,234,000,000;

6. That the latest estimated deposits in the Unemployment Trust Fund for the fiscal year 1939 will amount to $791,000,000 and that the estimated withdrawals will amount to $391,000,000, leaving $400,000,000 available with which to help finance the above-mentioned deficit. To this should be added the other special investments such as Old Age Reserve, etc., aggregating $600,000,000;

7. That our working balances during this period will range between 700 and 900 million dollars;

8. That there will be no further sale of public debt obligations for the purpose of purchasing gold for deposit in the inactive gold fund, and that inactive and free gold amounting to $1,392,000,000 will be used to finance the deficit; and

9. That the financial requirements of the Commodity Credit Corporation estimated at $250,000,000, the Reconstruction Finance Corporation estimated at $1,000,000,000, and U. S. Housing Authority estimated at $200,000,000, will be met through the sale of their own obligations in the market and the Treasury relieved of supplying these three organizations with cash.

Based on these assumptions there is set out below a statement showing the total estimated Government financing which will be required for the fiscal year 1939 and also the proposed methods of meeting these financial requirements.

Total Treasury Financing:		
Net deficit	$4,184,000,000	
Maturing Treasury notes	3,265,000,000	
Maturing special Treasury bills (4 times $250M)	1,000,000,000	
Maturing regular Treasury bills (4 times $1,550M) . . .	6,200,000,000	
Total		$ 14,649,000,000
Method of Financing:		
Refunding -		
Treasury notes (exchanges) . .	$3,100,000,000	
Treasury bills (replacements) .	7,200,000,000	10,300,000,000
Cash requirements.		4,349,000,000
Unemployment Trust Fund (net) .	$ 400,000,000	
Old Age Reserve, etc. (net) . .	600,000,000	
U. S. Savings bonds	400,000,000	
Gold deposits	1,392,000,000	2,792,000,000
Market cash operations		$ 1,557,000,000
Additional estimated guaranteed obligations to be sold:		
Reconstruction Finance Corp.. .	$1,000,000,000	
Commodity Credit Corporation. .	250,000,000	
U. S. Housing Authority	200,000,000	1,450,000,000
Total market operations (direct and guaranteed)		$ 3,007,000,000

Note: In addition to the foregoing financing, there are outstanding guaranteed obligations which mature during the fiscal year 1939 and which will have to be refunded, in the aggregate amount of about $730,000,000.

Duck

150
65
87

ROUGH BUDGET ESTIMATES, FISCAL YEAR 1939

(In millions of dollars)

	Estimated in 1939 Budget		Revised estimates		Increase
Expenditures-					
Departmental		$1,324		$1,324	-----
Public Works-					
Highways	$100		$290		
Rivers and Harbors	60		60		
Flood Control	63		213		
All other	181	404	181	744	$340
National Defense		989		1,040	51
Agric. Adj. Program		586		636	50
Civilian Cons. Corps		230		280	50
Social Security		338		350	12
Int. on the Public Debt		976		1,000	24
Revolving funds (including grants)		142		592	450
Transfers to trust accts		667		667	-----
Supplemental		75		100	25
Recovery and relief-					
Works Progress Adm.	925		2,200		
Farm Security Adm.	85		200		
All other	128	1,138	128	2,528	1,390
Total expenditures		6,869		9,261	2,392
Revenues		5,919		5,077	(a) 842
Net deficit		950		4,184	3,234

(a) Decrease

Above revised revenue estimate is based on Federal Reserve Board business index of 80. If this index declines to 75 the estimate of revenue will be about $4,881 million, and the net deficit will be $4,380 million. If this index increases to 85, the revenue estimate will be $5,238 million, and the net deficit $4,023 million.

DWB

Gross public debt March 31, 1938		$ 37,556 M
Estimated increase to June 30, 1938 . .	$ 150 M	
Estimated increase fiscal year 1939 to finance deficit (less gold deposits)	2,792	2,942
Estimated gross public debt June 30, 1939		$ 40,498 M

Guaranteed debt January 31, 1938		$ 4,706 M
Estimated increase by June 30, 1939:		
Reconstruction Finance Corp.	$1,000 M	
Commodity Credit Corporation	250	
U. S. Housing Authority	200	1,450
Estimated guaranteed debt June 30, 1939		$ 6,156 M

DCB

April 12, 1938

PSF Treas. 216

THE SECRETARY OF THE TREASURY
WASHINGTON

file

April 21, 1938

21

My dear Mr. President:

I am inclosing herewith a report on current United States trade with Japan and China for the month of March, 1938.

Faithfully,

H Morgenthau Jr.

The President,
The White House.

Enclosure.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE April 21, 1938

TO Secretary Morgenthau

FROM Mr. Haas x 21-AA

Subject: Current Trade with Japan and China, March 1938

A. United States trade with Japan increased markedly in March.

I. Exports to Japan were 22 percent greater in March than in February and 12 percent greater than in January 1938. They were, however, 22 percent less than exports in March 1937. United States exports to Japan usually show a seasonal increase during the month of March.

x614-A
x197-A
x150-A
x21T
x150-b

a. Exports of iron and steel manufactures accounted for 50 percent of the increase and petroleum products for 33 percent. Exports of iron and steel scrap amounted to $2,483,685 or 51 percent of the total iron and steel exports.

b. Raw cotton exports decreased 1 percent as compared with February 1938 and were 53 percent less than March 1937.

c. Exports of aircraft and parts amounted to $525,000, 115 percent more than in February 1938.

II. Imports from Japan were 14 percent greater in March than in February 1938 but were 44 percent less than in March 1937.

a. Imports of raw silk increased 19 percent in March as compared with February 1938. They were, however, 7 percent less than the monthly average for the past six months and were 11 percent less than in March 1937.

b. Imports of cotton manufactures decreased 43 percent in March as compared with February 1938.

B. United States trade with China showed even greater increases in March 1938 than our trade with Japan.

I. United States exports to China and Manchuria increased 41 percent during the month of March 1938 as compared with February 1938. Exports to North China and Manchuria increased 36 percent, and exports to South China, Shanghai

and Hong Kong increased 44 percent. Exports to South China, Shanghai and Hong Kong were approximately 61 percent greater in value than those to North China and Manchuria.

II. Imports from China and Manchuria increased 23 percent during the month of March 1938 as compared with February 1938. Imports from North China and Manchuria show a decrease of 2 percent and those from South China, Shanghai and Hong Kong increased 32 percent. Imports from North China accounted for 21 percent of the total imports from China in March as compared with 27 percent in February 1938, while imports from South China accounted for 79 percent in March 1938 and 73 percent in February 1938.

Statistics

A. Current trade with Japan

I. United States exports to Japan - total value

	1938	1937
March	$23,459,000	$29,971,000
February	19,266,000	24,745,000
January	20,981,000	22,364,000

	1937	1936
December	$16,532,000	$16,433,000
November	18,133,000	24,100,000
October	20,129,000	26,668,000

II. United States exports to Japan by commodities

Commodities showing increases	March 1938	February 1938	January 1938
Iron and steel scrap	$ 2,484,000	$ 1,658,000	$ 534,000
Iron and steel semi-manufactures	1,157,000	586,000	1/
Other iron and steel and manufactures	1,264,000	583,000	1,489,000
Petroleum and products	4,386,000	3,004,000	5,066,000
Industrial machinery	2,979,000	2,609,000	2,853,000
Paper base stocks	840,000	422,000	492,000
Aircraft and parts	525,000	244,000	2/
Fertilizers and fertilizer materials	437,000	362,000	24,000
Ferro-alloys	321,000	24,000	nil
Coal-tar products	301,000	23,000	69,000
Lead and manufactures	228,000	70,000	nil
Rosin	57,000	10,000	11,000
Commodities showing decreases			
Cotton, unmanufactured	5,508,000	5,565,000	5,817,000
Copper and manufactures	1,178,000	1,367,000	1,883,000
Automobiles, parts and accessories	718,000	1,337,000	2/
Hides and skins, raw	224,000	226,000	22,000
Electrical machinery and apparatus	36,000	58,000	252,000
Tobacco and manufactures	1,000	290,000	nil
Total	$22,644,000-97%	$18,438,000-96%	$18,512,000-88%
All other	815,000- 3%	828,000- 4%	2,469,000-12%
Grand total	$23,459,000	$19,266,000	$20,981,000

1/ Included in "other iron and steel and manufactures".
2/ Not shown separately in January 1938.

III. United States imports from Japan - total value

	1938	1937
March	$ 9,940,000	$17,660,000
February	8,723,000	18,382,000
January	11,342,000	17,683,000

	1937	1936
December	$11,839,000	$16,451,000
November	17,190,000	15,340,000
October	15,420,000	15,930,000

IV. United States imports from Japan by commodities

Commodities showing increases	March 1938	February 1938	January 1938
Silk, unmanufactured	$6,219,000	$5,225,000	$ 5,947,000
Silk manufactures	274,000	198,000	323,000
Pyrethrum flowers	229,000	117,000	295,000
Hats and hat materials	228,000	196,000	115,000
Furs and manufactures	228,000	79,000	19,000
Fish and fish products, edible	202,000	141,000	192,000
Fish scrap and fish meal	153,000	27,000	80,000
Tea	108,000	102,000	185,000
Camphor	97,000	54,000	60,000
Paper and paper manufactures	80,000	66,000	174,000
Commodities showing decreases			
Cotton manufactures	316,000	550,000	738,000
Vegetable foods, other than tea	178,000	212,000	298,000
China and porcelain ware	172,000	189,000	271,000
Menthol	108,000	132,000	148,000
Perilla oil	5,000	149,000	143,000
Total	$8,597,000-86%	$7,437,000-85%	$ 8,988,000-79%
All other	1,343,000-14%	1,286,000-15%	2,354,000-21%
Grand total	$9,940,000	$8,723,000	$11,342,000

B. Current trade with China

I. United States exports to China - total value

	1938	1937
March	$8,590,000	$6,483,000
February	6,107,000	5,262,000
January	7,992,000	6,623,000

	1937	1936
December	$8,125,000	$5,430,000
November	9,978,000	4,035,000
October	7,152,000	5,421,000

II. United States exports to China by commodities

(a) To North China and Manchuria:

	March 1938	February 1938
Automobiles, parts and accessories	$1,264,000	$ 275,000
Iron and steel manufactures	502,000	648,000
Cotton, unmanufactured	339,000	545,000
Petroleum and products	288,000	275,000
Industrial machinery	270,000	117,000
Tobacco and manufactures	209,000	53,000
Wood and manufactures	137,000	71,000
Total	$3,009,000	$1,984,000
All other	281,000	433,000
Grand total	$3,290,000	$2,417,000

(b) To Shanghai, South China and Hong Kong:

	March 1938	February 1938
Tobacco manufactures	$1,000,000	$ 430,000
Automobiles, parts and accessories	653,000	571,000
Electrical machinery	580,000	79,000
Firearms and ammunition	399,000	384,000
Iron and steel manufactures	336,000	188,000
Copper and manufactures	300,000	269,000
Aircraft and parts	242,000	417,000
Cotton, unmanufactured	238,000	111,000
Vegetable foods, edible	208,000	142,000
Industrial machinery	103,000	72,000
Ginseng	102,000	145,000
Paper and manufactures	102,000	25,000
Petroleum and products	89,000	185,000
Total	$4,352,000-82%	$3,018,000-82%
All other	948,000-18%	672,000-18%
Grand total	$5,300,000	$3,690,000

III. United States imports from China - total value

	1938	1937
March	$4,507,000	$14,103,000
February	3,662,000	11,804,000
January	4,470,000	6,882,000

	1937	1936
December	$5,697,000	$ 5,442,000
November	6,762,000	4,669,000
October	6,914,000	5,498,000

IV. United States imports from China by commodities

(a) From North China and Manchuria:

	March 1938	February 1938
Bristles	$ 213,000	$ 218,000
Furs and manufactures	171,000	56,000
Perilla oil	91,000	182,000
Vegetable products, edible	83,000	22,000
Non-metallic minerals and products	56,000	6,000
Total	$ 614,000-64%	$ 484,000-49%
All other	341,000-36%	494,000-51%
Grand total	$ 955,000	$ 978,000

(b) From Shanghai, South China and Hong Kong:

	March 1938	February 1938
Tung (wood) oil	$1,707,000	$ 689,000
Flax, hemp and ramie and manufactures	293,000	231,000
Tin ore, bars, blocks, pigs, scrap etc.	214,000	622,000
Hats and hat materials	160,000	105,000
Vegetable products, edible	200,000	159,000
Cotton manufactures	151,000	101,000
Bristles	124,000	234,000
Fireworks	110,000	54,000
Silk, unmanufactured	78,000	21,000
Total	$3,037,000-86%	$2,216,000-83%
All other	515,000-14%	468,000-17%
Grand total	$3,552,000	$2,684,000

BF
Treas

THE SECRETARY OF THE TREASURY
WASHINGTON

Full
personal

June 21, 1938.

My dear Mr. President:

I thought this report on business conditions by George Haas was particularly interesting and quite cheerful.

Yours sincerely,

H. Morgenthau Jr.

The President,
Hyde Park, New York.

[redacted]

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE June 20, 1938

TO Secretary Morgenthau

FROM Mr. Haas

Subject: The Business Situation, week ending June 18

Conclusions

The continued rise in commodity prices over nearly three weeks has been accompanied by an upturn in new orders for steel and other products, and by other evidences of an improvement in business sentiment. The almost universal feeling a few weeks ago that business would continue to decline until late summer has been modified by developments which have some appearance of indicating a turn. Among them are the following:

(1) Automobile sales recently have been better than previously expected, and production has been increased for the second successive week.

(2) The rate of steel operations has risen slightly at a season when output would normally be contracting, and a further increase is suggested by an upturn in new orders.

(3) Construction contract awards have recently shown a sharp improvement.

(4) Cotton mill activity showed an increase during May, when seasonal influences would call for a decline, and has improved further during early June.

(5) Freight car loadings continue to rise, especially in the more significant miscellaneous classification, after reaching a low the latter part of April.

(6) Some tendency toward improvement has appeared in certain areas.

(7) The price structure is improving. Sensitive commodity prices are rising, with improvements in the statistical positions of a number of commodities, while steel prices are weakening.

New orders improve

Probably influenced by the strong upturn in commodity prices over the past two weeks, new orders during the second week in June turned upward, according to our weighted index, to the highest level since the last week of April. (See Chart 1.) Orders for steel, textiles, and electrical equipment showed substantial increases.

Steel activity higher

A 1-point improvement in the rate of steel operations over the past two weeks, while relatively small (3.8 percent) appears significant since (1) Steel operations are usually contracting at this season. (2) The upturn was apparently unexpected in many quarters, since as recently as Monday of this week the Journal of Commerce mentioned that "Youngstown is barely holding to its rate of 25 percent of capacity. The industry is evidently working down to its proverbial low of the year around Independence Day when a pace as low as 15 percent would not be surprising." (3) A further increase seems in prospect, judging from the upturn in new steel orders last week to an equivalent of 37 percent of capacity. The Youngstown district is scheduled to raise operations to 29 percent next week, with a further upturn possible before the end of the week. Steel scrap prices have improved.

A reduction of $3.00 a ton on galvanized steel sheets, giving official recognition to price shading that had been prevalent for some weeks, is taken in the trade as evidence that buying is beginning to appear in sufficient volume to test the price structure. A further test of prices is expected to come when the automobile companies begin seeking quotations on steel for their fall requirements.

Some improvement beginning to appear

While certain factors in the present business situation continue unfavorable, these are, for the most part, factors which are well known, which have been well advertised, and probably pretty well discounted. Some evidence that they are becoming well discounted appears in the stability of industrial production over the past several months. We have, therefore, thought it advisable in this statement to list the factors which may indicate a coming upturn.

Such indications have recently become more numerous. The increase in new orders in various lines during the second week in June, a tendency toward improvement in the commodity price structure, and a contra-seasonal rise in steel operations, have

already been mentioned. Other favorable factors, of greater or less importance, include the following:

(1) Automobile production this week increased to 41,800 units, the second successive increase from the low output of 27,000 units during the Memorial Day week, as sales in this country and abroad have been maintained at a higher level than previously expected. Production in July is now expected to be not much lower than in June.

(2) Construction contract awards have recently shown a marked upturn, particularly for public works, nonresidential and public utility projects, with residential contracts rising to approximately last year's level.

(3) Reports to the National Association of Real Estate Boards indicate that sales of home sites ready for building have been increasing throughout the country during the past two months, and are now equal to, or greater than, those of last year in the majority of cities.

(4) Production in various consumer goods industries has already turned upward.

(a) Cotton mill activity, which often rises in advance of the general business trend, showed a contra-seasonal increase during May, the FRB adjusted index rising to 81 as compared with 77 in April. The New York Times weekly index shows a further increase in cotton mill activity in early June.

(b) Rising trends in boot and shoe production, and in production of wool and silk goods, have been under way for several months.

(c) Activity in the paper industry expanded during May, and has been maintained to date, apparently marking a turn in the trend. Sales have held up well, and the inventory position has improved.

(5) Carloadings have continued to rise (after seasonal adjustment) from their low reached near the end of April. Loadings of miscellaneous freight, which is believed more significant as an index of business, has shown most noticeable improvement.

(6) As a composite measure of recent trends in several business series, the New York Times index for the week ended June 11 rose 1.5 points from its low for the year reached during the previous week. Contra-seasonal improvement in steel and automobile output suggests a further upturn during the current week.

(7) An upturn in replacement buying of automobile tires has recently been reported, coincident with improved buying of steel and other products. Inventories of tires at the end of April were 20 percent smaller than a year previous.

(8) Increased prices for gasoline indicate that drastic production curtailment is proving effective in remedying weakness in the crude oil and gasoline supply situations.

(9) Industrial production has continued for many months below the level of demand, indicating that inventories have been steadily reduced. A rise of about 10 points in the FRB index would be necessary to adjust production to the current level of demand.

(10) On the financial side, recent successful flotations of large corporate security issues, a part of which has represented new capital, provide a strong influence toward a revival of business confidence and an increase in industrial buying.

Some regional improvement noted

Business recovery may start, as in 1933, from some important strengthening influence in one section of the country and extend from there to other sections. Some evidence of regional improvement has appeared, though not extensive enough so far to be conclusive.

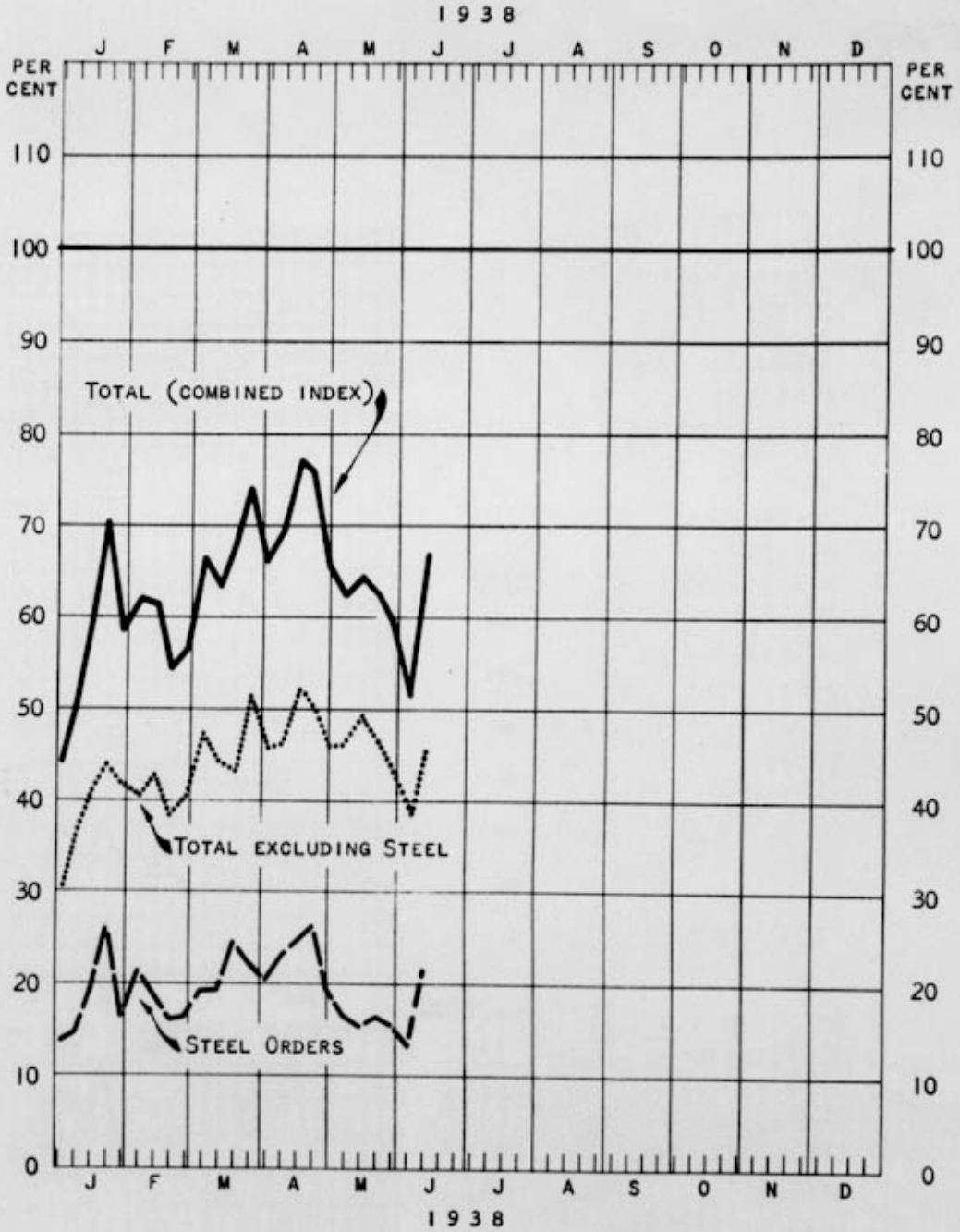
In residential construction (Chart 2) a marked upturn, in residential awards, as compared with last year, has occurred in the South Atlantic and Middle Atlantic States. In the Pacific district (for which total building permits are shown, since purely residential data are not available) improvement has been under way since December. A well-maintained trend is shown in the East South Central district.

Evidence of well-maintained or improving business in these same regions is shown by department store sales. (Chart 3.) While the Federal Reserve districts for which these sales are reported do not coincide with the census districts shown in the previous chart, it will be noted that in the districts covering the South and the Pacific Coast, department store sales have been maintained above the national average. In the Dallas and Atlanta districts an improvement in sales has occurred during May, while the national average was declining.

The improved trends in the South appear to be due partly to well-maintained levels of farm income in the East South Central and West South Central districts, as compared with the previous year. (See Chart 4.)

Sales by Sears Roebuck and Company, divided as between metropolitan and rural areas, provide some basis for judging whether an upturn in sales in a given district has arisen chiefly from industrial and commercial or from agricultural sources. (Chart 5.) It will be noted that in District 6, which includes States from Texas north to Nebraska, sales have been best maintained in the metropolitan areas, while in District 8 (lower Pacific and Western States) the sales have been best in rural areas.

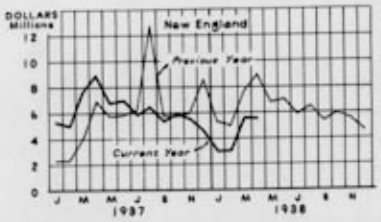
INDICES OF NEW ORDERS
1936 = 100

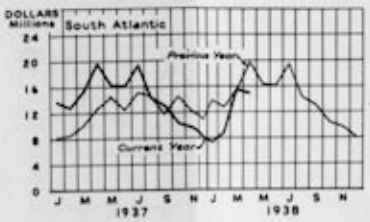


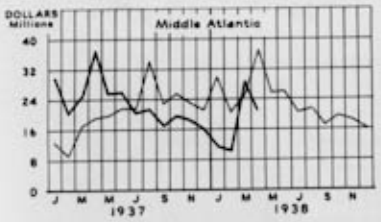
Office of the Secretary of the Treasury
Division of Research and Statistics

RESIDENTIAL CONSTRUCTION

By Census Districts

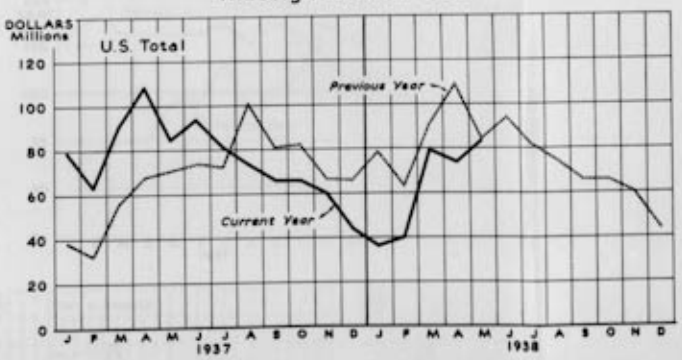


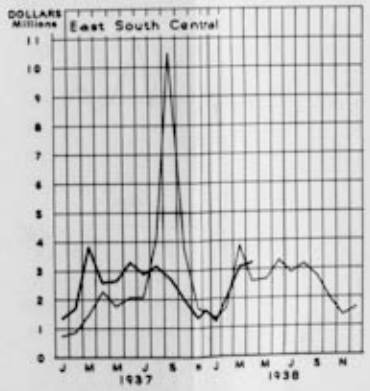


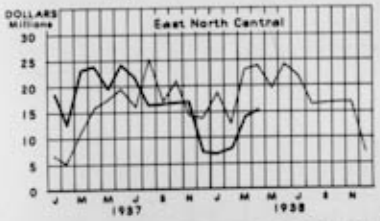


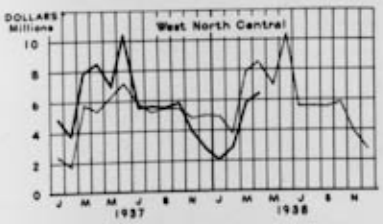
TOTAL MONTHLY CONTRACTS AWARDED

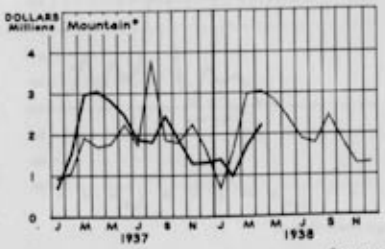
F.W. Dodge, 37 Eastern States

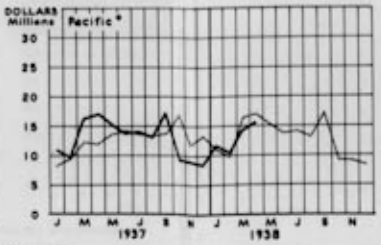


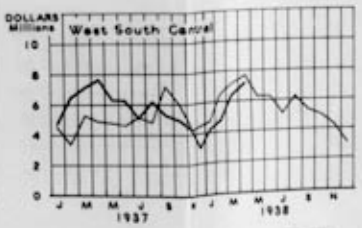












*Total Building Permits

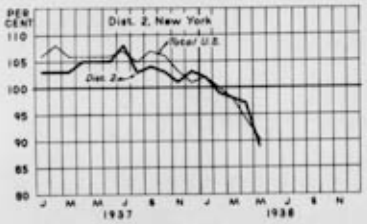
Office of the Secretary of the Treasury
Division of Research and Statistics

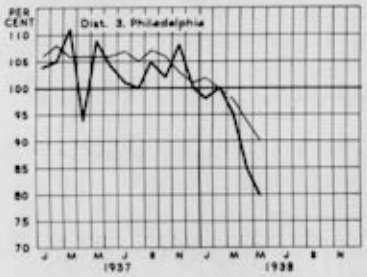
C-214

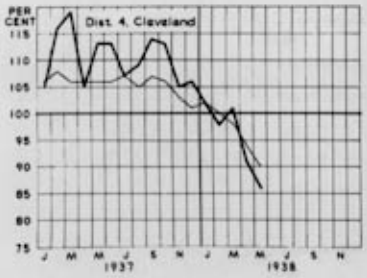
Chart 3

DEPARTMENT STORE SALES

By Federal Reserve Districts

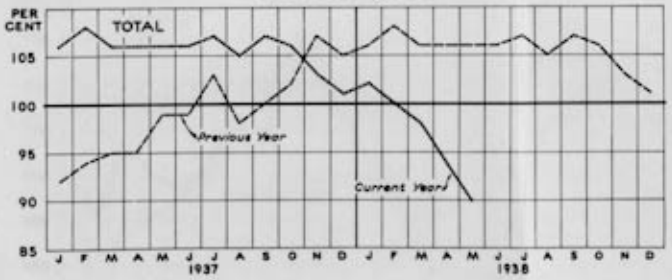


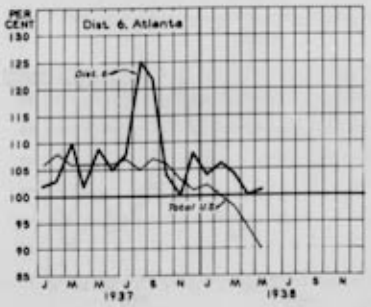


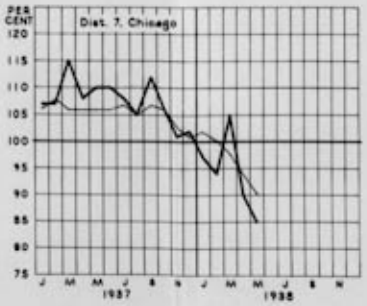


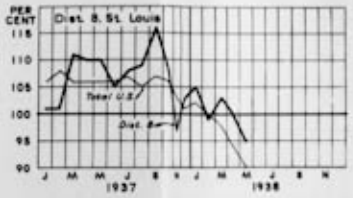
MONTHLY INDEX OF SALES

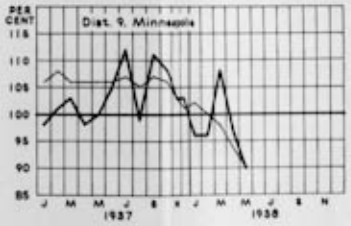
1936=100, Adjusted

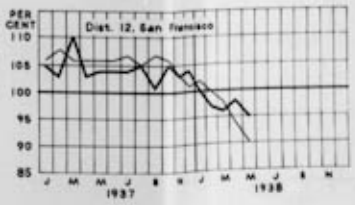












Note: All latest figures are preliminary

Office of the Secretary of the Treasury
Division of Research and Statistics

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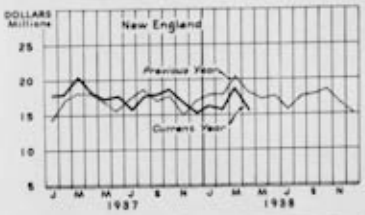
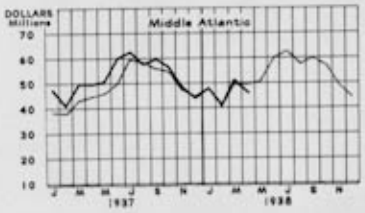
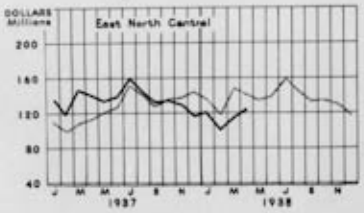
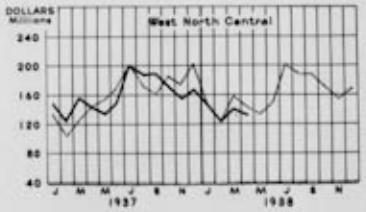
FARM INCOME

By Census Districts



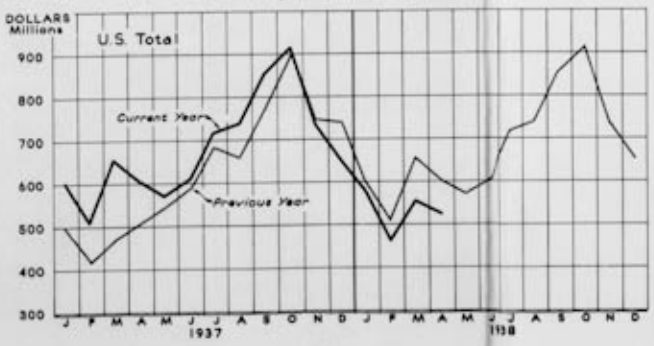


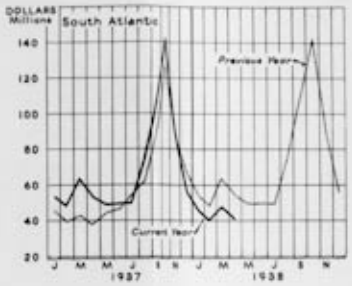


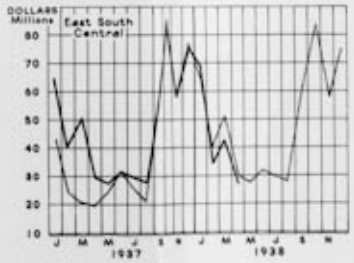


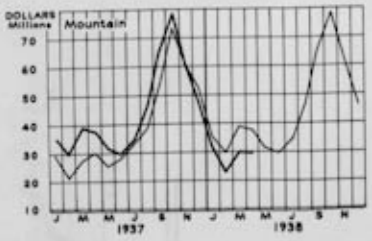
MONTHLY CASH INCOME

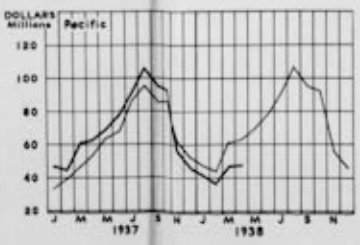
Including Government Payments

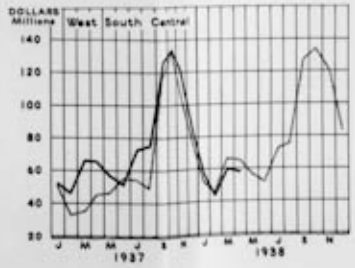












Office of the Secretary of the Treasury
Division of Research and Statistics

SEARS, ROEBUCK & CO.

CONFIDENTIAL

FOUR-WEEK SALES BY DISTRICTS

Four-Week Average 1936 For Each District = 100

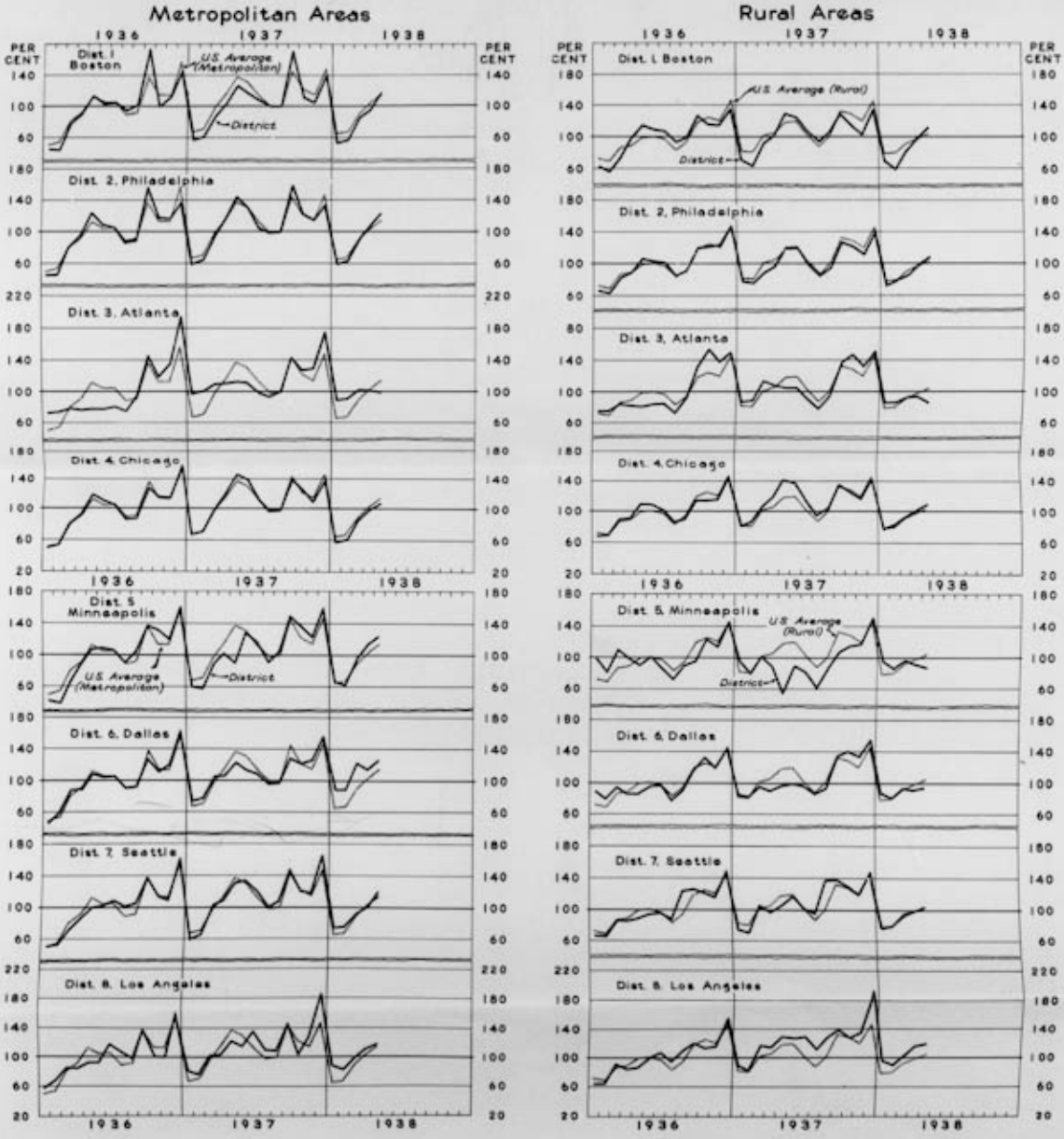


Chart 5

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P.F.

THE SECRETARY OF THE TREASURY
WASHINGTON

June 29, 1938

My dear Mr. President:

I am sending you herewith a weekly review of the business situation, prepared by George Haas. I wish to draw your particular attention to page 6, the paragraph headed "Heavy inventory accumulation in 1937" and the accompanying chart No. 4.

Respectfully yours,

H. Morgenthau Jr.

The President,

Hyde Park, New York.

CO[redacted]

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE June 27, 1938

TO Secretary Morgenthau

FROM Mr. Haas

Subject: The Business Situation, week ending June 25, 1938

Conclusions

(1)

The spectacular rise in stock prices this week confirms various evidences of improving business, and advertises to the country in a dramatic manner that the tide of business has turned.

Together with the upturn in commodity prices which began several weeks ago, the stock market rise is also becoming an active factor in increasing business activity.

(a) It has forced business sentiment into widespread optimism almost overnight.

(b) It has stimulated industrial buying in numerous lines.

(c) Rising price levels are tending to increase agricultural purchasing power, to increase corporate earnings, and to eliminate the inventory situation as a depressing factor.

(2)

Additional evidences of underlying business improvement have appeared this week:

(a) Further adjustments have been made in the price structure, through increased prices of raw materials and reduced prices of steel products, automobile parts, and certain farm machinery.

(b) Department store sales, adjusted, have increased to the highest level since mid-April.

(c) The Ford Motor Company has increased output this week to the highest rate since April.

(d) Steel scrap prices have risen sharply.

(e) A sensational upturn in cotton textile sales apparently foreshadows a further increase in mill activity.

(3)

Two major factors account for the beginning of a turn in business at this time:

(a) Inventories, which throughout the recession have been an indeterminate bearish factor, have apparently been liquidated to a point where production can again advance. (See discussion, pp. 5-6.)

(b) The recovery program is beginning to take effect. The increase in excess bank reserves has stimulated bond and stock prices, and some preliminary effects of the spending program are already being felt.

* * * * * * * * * * *

The stock market upturn

The nearly vertical rise in stock prices this week on heavy trading volume, coming with dramatic suddenness after a week in which the volume had dried up to a twenty-year low, reflects a previous over-discounting of bearish factors in the current situation. One illustration of this appeared in the unjustified belief a few weeks ago that the automobile companies would close down completely during the summer, and that steel operations might be reduced to 15 percent. As a consequence, a heavy volume of investment buying and short covering, which had been postponed awaiting the expected summer slump, came into the market as soon as business showed signs of turning up instead of down.

Business sentiment has been decidedly changed by the rise in stock prices, particularly since it confirms the upturn in commodity prices which began early in June. Reports from various sections of the country mention an

improved psychology among buyers since the stock market upturn. This has been particularly true among buyers of raw materials.

(1) In the copper market, the American Metal Market says that "There is no denying that the recent change in sentiment toward practically all commodities and markets is proving to be a powerful propelling force in copper."

(2) In the lead market the demand was said to be "too strong to be coped with freely".

(3) In zinc, the "complete transition of the market from a state of dormancy to one of outstanding activity and strength is even more remarkable than in lead".

(4) Steel scrap prices have been marked up three times this week under increased demand.

(5) A sensational expansion in cotton textile buying has occurred, extending to all types of goods and from all classes of buyers, including buyers of cotton goods for industrial purposes.

An important reason for the widespread change in sentiment is that market writers, forced to explain the rising price trend, have brought out and advertised to the country at large the numerous favorable factors in the business situation, and subordinated the unfavorable ones which they had previously been emphasizing.

In addition to serving as a measure of improving business, the upturns in stock and commodity prices are taking an active part in bringing about such improvement by (1) stimulating industrial buying; (2) increasing purchasing power, particularly in agriculture; (3) increasing corporate earnings through working toward higher production rates and increased valuations of inventories; (4) reducing the pressure to liquidate inventories, and thereby tending to remove this factor as a bearish influence.

Further evidence of business improvement

Additional favorable business developments have appeared this week:

(1) Further substantial progress has been made in correcting price disparities through the upturn in raw material prices, which has been combined with reductions in prices of various finished or semi-finished products:

(a) A general reduction in steel prices ranging from 6 to 10 percent at Pittsburgh has been announced by the U. S. Steel Corporation. Greater reductions were made at Chicago and Birmingham, thereby modifying basing point differentials.

(b) The Caterpillar Tractor Company has announced a reduction in prices on certain lines up to 23 percent, which will be followed by other companies.

(c) Automobile parts companies are reported to have cut prices up to 20 percent on some items.

(2) Department store sales have increased for three successive weeks. For the week ending June 18, the seasonally adjusted sales index rose to 83, or 10 percent below last year. This represents the highest actual level and the smallest decrease below last year since mid-April.

(3) The Ford Motor Company this week increased production to the highest level since April. Although other leading companies reduced production somewhat, the total output has held very steady for three weeks, reflecting well-maintained sales levels.

(4) The Buick Company, whose retail sales during the first 10 days of June were higher than in the similar period of May, has begun to buy steel for 1939 models.

(5) An increase in steel operations for the third successive week has been due not only to increased orders, but also to the fact that stocks of finished steel in the hands of steel companies have been greatly depleted.

New orders

Steel orders for last week, preceding the stock market rise, declined to an equivalent of 29 percent of capacity, as compared with the previous figure of 37 percent. (See Chart 1.) Steel orders are strongly influenced by the stock market trend, as the chart indicates. The orders figure to be received next week will reflect only in part this week's stock market upturn.

It is uncertain, as yet, whether the moderate cut in steel prices will lead to increased buying, but the fact that prices for steel scrap and other commodities are rising may well lead steel buyers to increase their purchases on the belief that no further reductions are in prospect.

New orders for products other than steel during the third week of June, not under the influence of the stock market rise, were also somewhat lower, our index declining to 41.3 as compared with the previous week's figure of 45.5. Textile sales since then have increased markedly, and, together with the stimulation to other orders that has doubtless been provided by the stock market upturn, should bring an increase in the next weekly index figure. Any marked improvement in orders would likely be reflected very quickly in increased industrial activity. When unfilled orders are low, as at present, there is very little lag between new orders and production.

Inventories substantially reduced

Trade reports and various statistics indicate that a substantial reduction in inventories has been an important factor back of the recent tendency toward business improvement. The actual size of corporation inventories remains indeterminate, but estimates we have made show that inventories have apparently been reduced sufficiently to allow business again to advance.

In Chart 2 we show (1) industrial production in dollar volume, compared with an estimated trend of consumption in dollar volume, (2) the indicated monthly additions to inventories or reduction in inventories, and (3) an estimate of the cumulated change in inventories since the beginning of 1935.

It will be noted that production consistently exceeded consumption from early in 1936 until October 1937, resulting in successive monthly additions to inventories. It was not until November of last year that production dropped below

consumption, and liquidation of the accumulated inventories began. The rate of liquidation declined somewhat in May, possibly indicating resistance to further inventory reduction.

Our estimate of accumulated inventories shown by the lower curve on the chart indicates that by the end of May 1938 the total had been reduced to about that at the beginning of 1937. Inventories at that time were below normal in terms of prevailing business levels, as were the inventories during 1935. While changes in the distribution of inventories may affect the comparisons, the present inventories should not prove burdensome, particularly since rising prices convert inventories into assets rather than liabilities.

Heavy inventory accumulation in 1937

The extent to which inventories were accumulated during the summer and fall of 1937 is shown in Chart 3. In this chart our estimate of total corporate inventories is compared with the FRB production index and with our composite index of new orders. Production continued at a high rate for some months after new orders had sharply declined, partly to build up stocks in anticipation of labor troubles, and partly because of a widespread belief that new orders would improve after Labor Day.

The increase in commercial loans during 1937 was largely for the purpose of carrying inventories. (See Chart 4.) The persistent increase in commercial loans in the summer of 1937 was generally regarded at that time as foreshadowing industrial expansion and therefore bullish. Actually it was a bearish factor. Similarly, the reduction in commercial loans recently has been held as an indication of business contraction, while actually it reflects a liquidation of inventories.

Recovery program becoming effective

A second major factor in the improving business trend is the increasing influence of the recovery program, in both its monetary and its deficit-spending aspects. The increase in excess reserves, first affecting Government bond prices and strengthening the market for new corporate issues, has increased the demand for high-grade stocks, and doubtless helped to bring about a rise in the stock market somewhat earlier than it might otherwise have occurred. A comparison of the timing of the upturns in excess reserves, bond prices, stock prices and commodity prices is shown in Chart 5.

Chart 1

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STEEL ORDERS COMPARED WITH STOCK MARKET TREND

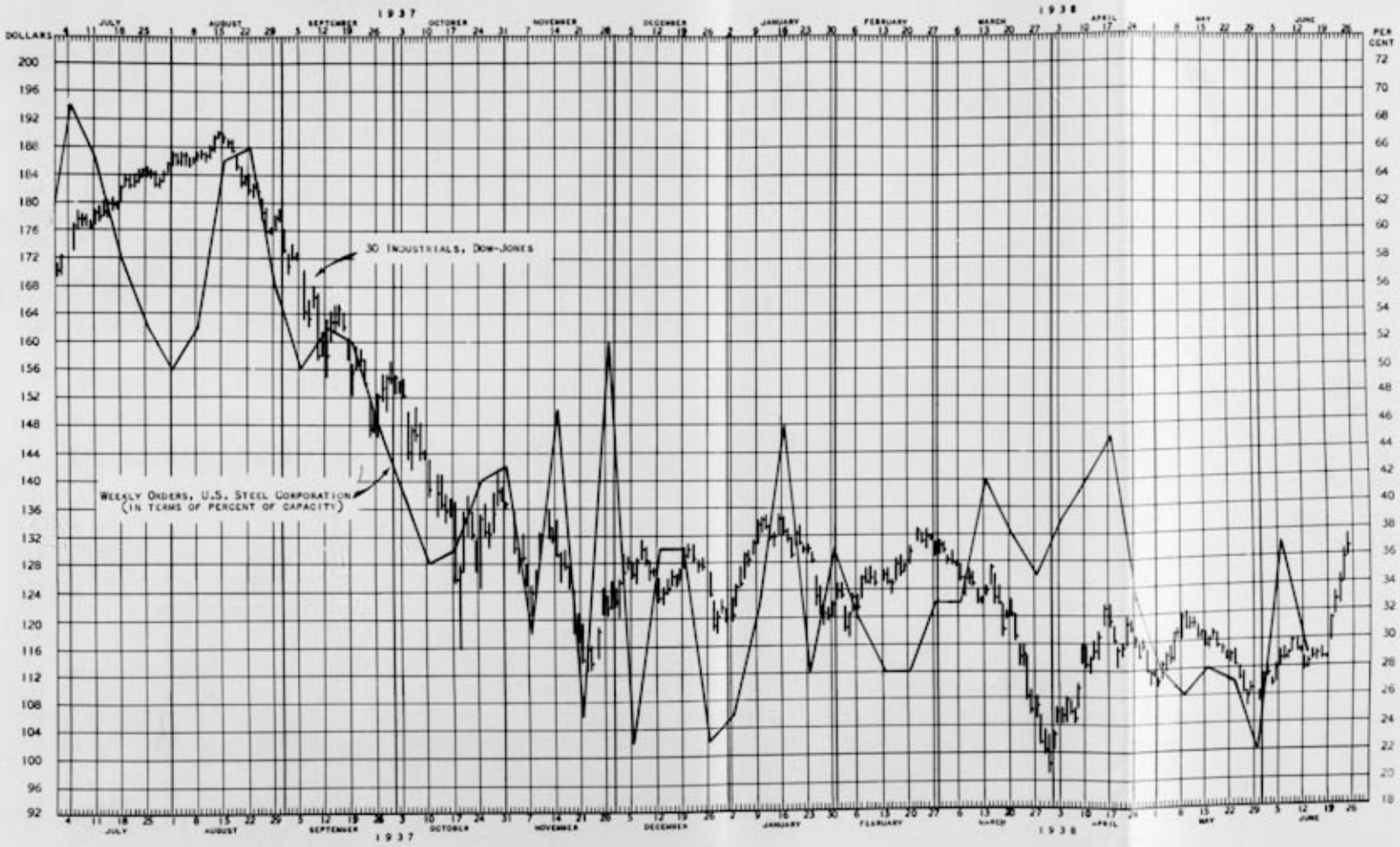

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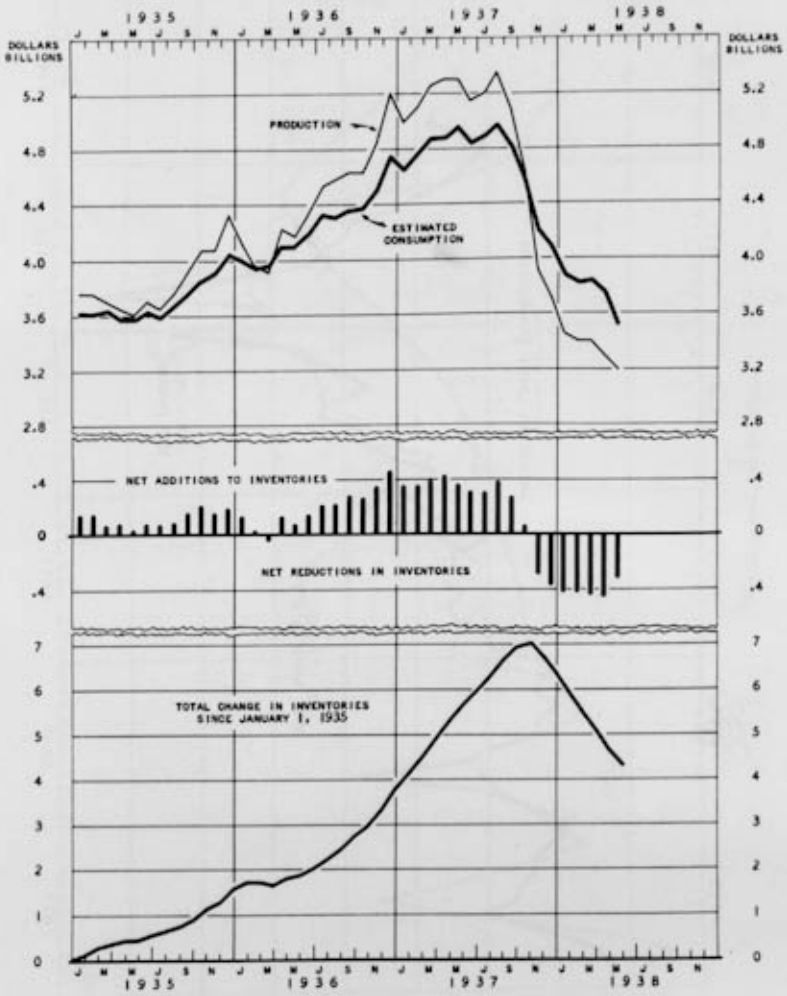
Chart 2

COMPARISON OF PRODUCTION AND CONSUMPTION, AND CHANGE IN TOTAL CORPORATION INVENTORIES 1935 TO DATE

In Dollar Volume



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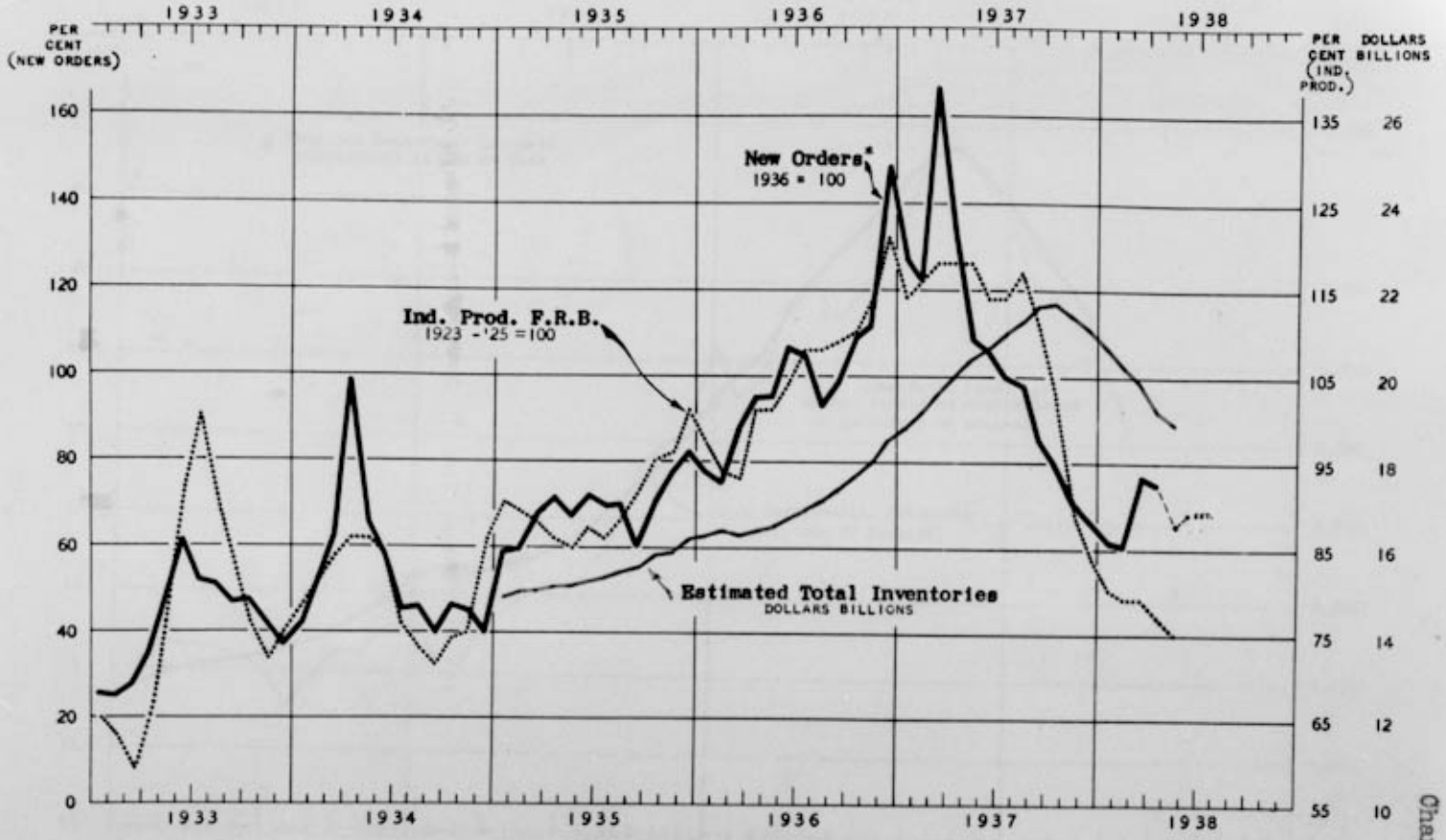
NEW ORDERS, INDUSTRIAL PRODUCTION AND CORPORATION INVENTORIES



*Not adjusted for seasonal.

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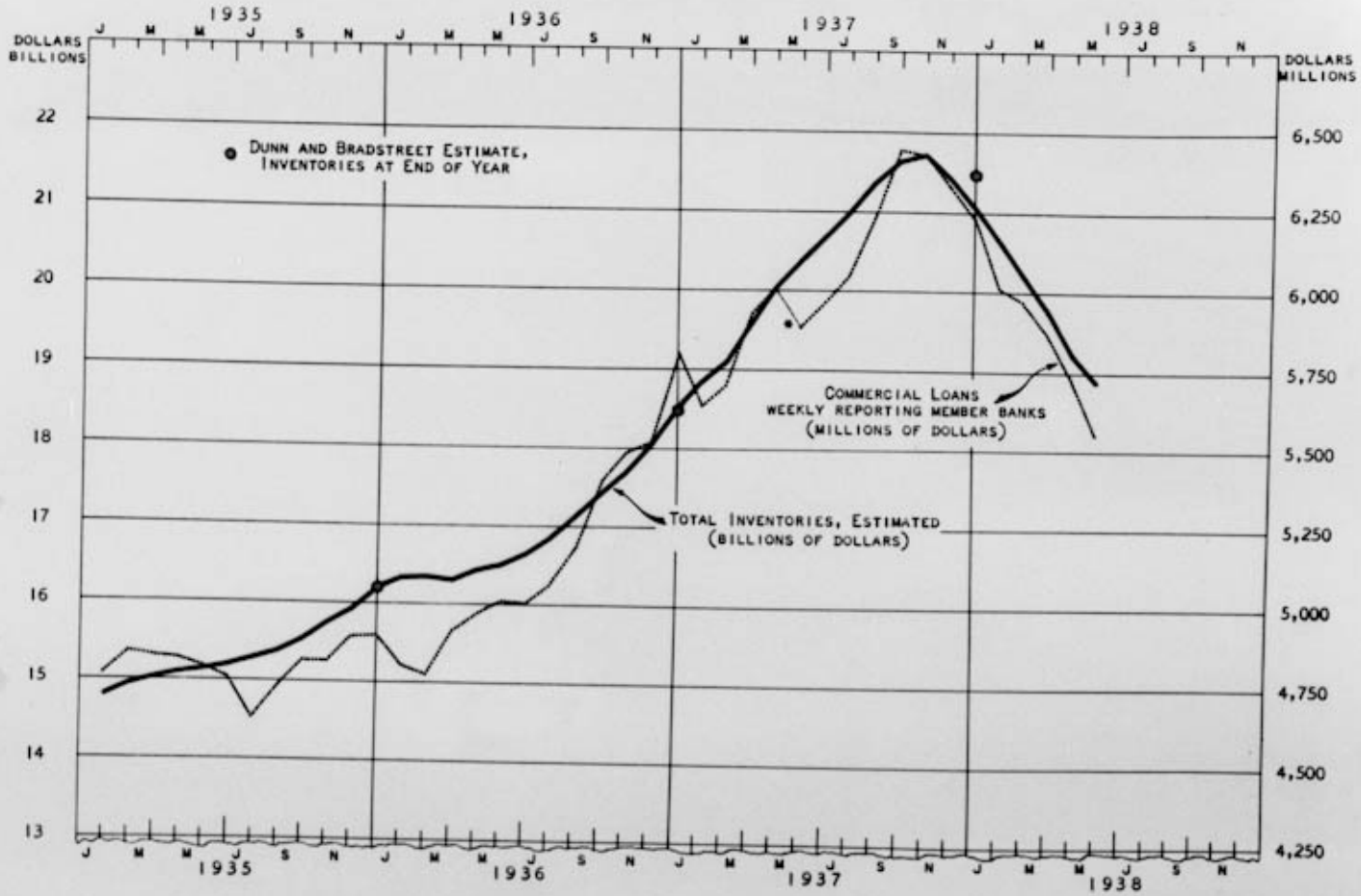
Chart 3

ESTIMATED CORPORATION INVENTORIES AND COMMERCIAL LOANS
At End of Month



*CHANGE IN COMPOSITION OF SERIES ON COMMERCIAL LOANS BEGINNING MAY 1937

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Chart 4

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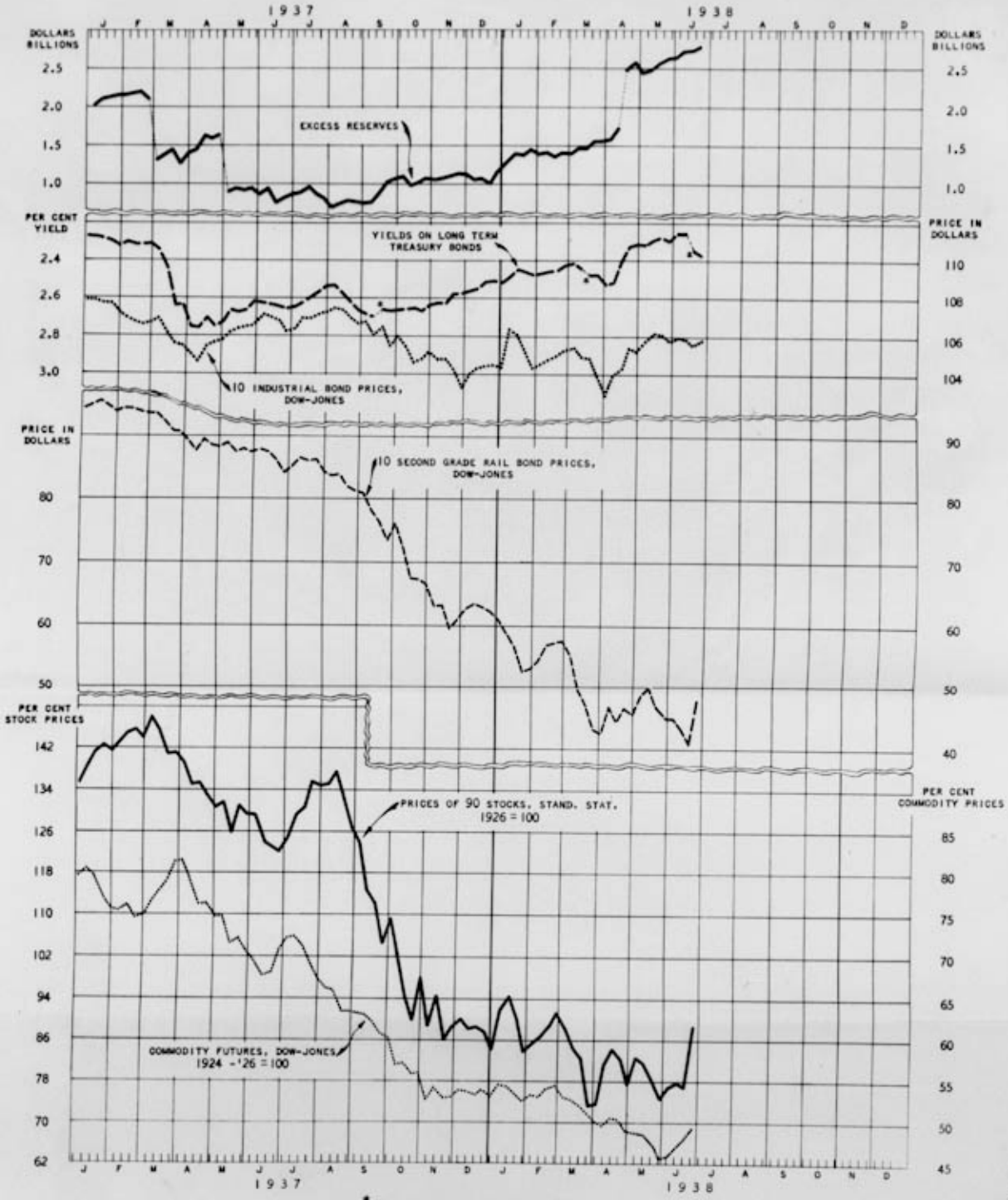
EXCESS RESERVES, SECURITY PRICES AND COMMODITY PRICES
Weekly



*Change in composition of index.

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Chart 5