

MONTHLY REVIEW

BUSINESS CONDITIONS IN THE TWELFTH FEDERAL RESERVE DISTRICT

Federal Reserve Bank of San Francisco

May 1, 1938

Review of the Month

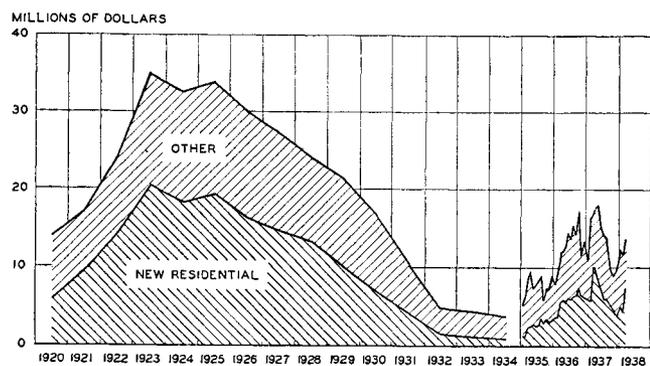
Preliminary data indicate that business activity in the Twelfth District was about the same during April as in the first three months of this year. Taking March and April together, retail trade was slightly less active than in the two preceding months, after allowance for seasonal influences. Residential building permits increased by the usual large seasonal amount in March, and a further expansion in April is indicated by preliminary data, although little or no change is customary in that month. Industrial production figures for April are not yet available, but about the usual seasonal increase took place during March. Output of most California industries for which measures are available remained close to the January and February levels or receded slightly, and industrial employment and pay rolls were somewhat lower than in February after allowance for the customary seasonal changes. In the Pacific Northwest, production, employment, and pay rolls increased slightly during March, owing largely to a greater than seasonal expansion in lumber production.

BUILDING

In the first four months of 1938, total value of building permits issued in the principal Twelfth District cities was approximately 15 percent lower than a year ago. In the spring of 1937 district building was more active than at any time since 1930, but after April building programs were sharply curtailed, particularly on new residential construction, and in December 1937 value of building permits was about half the monthly average during the spring. This decline was followed in January 1938 by a considerable expansion in all classes of building in the district. Through April the usual large seasonal gain has taken place in new residential building. Nonresidential permits declined in February and March, but, according to preliminary figures were higher in April than in any month this year.

While residential building is currently less active than a year ago, many builders have increased their operations sharply from the low levels reached last fall, and some are setting programs for the next few months that call for more active building than in the summer of last year. In late 1936 and early 1937, operative builders, who usually build at least 80 percent of the new houses constructed in the district, were generally optimistic concerning the market outlook, and accordingly undertook extensive building programs at that time. Accompanying that expansion, selling prices of houses were advanced considerably to cover higher costs of building, particularly costs of labor, and to increase contractors' margins. As quotations for houses were advanced, builders began

to experience difficulties in disposing of their completed properties. As a result, building programs were curtailed after April and activity declined progressively during the remaining months of the year. Even with this contraction in activity, a considerable number of houses built in 1937 were not sold during that year.



VALUE OF BUILDING PERMITS—Twelfth District
Monthly averages of annual figures 1920-1934; monthly figures 1935 to date. (18 larger cities)

As a result of their experience last year, and because they believe building costs and labor conditions necessitate prices for houses so high as to prevent their ready sale, many builders have remained idle in recent months. As indicated before, others have undertaken and are now carrying out fairly substantial building programs, but in general those more active builders are proceeding more cautiously with their programs than in early 1937. Consequently, the current level of operations is well gauged to actual market demand. Construction has gone ahead on a more rapid scale in the San Francisco Bay area and in southern California than in some other localities. This reflects the fact that sales of houses in the specified areas were active in February and March, builders disposing of most houses carried over from last year and in some cases selling houses on which construction had not yet started.

Expansion in residential building since the end of last year has been largely in single family dwellings selling from \$3,000 to \$6,000. Definite encouragement to purchases of houses of this character was provided by the recent amendments to the National Housing Act. Those amendments reduced the size of the required down payment to 10 percent of the appraised value of properties in the lower-price brackets, and reduced total interest and other charges on insured loans. These terms assisted in selling lower priced houses carried over from last year and increased the number of potential buyers of addi-

tional houses which builders might erect. The opinion is now widely held in the trade that houses which meet Federal Housing Administration standards and which are in the lower-price class requiring only a 10 percent down payment can be sold in fairly large numbers. Demand for higher priced homes, however, is slack at the present time.

Apartment house construction continues at a low level throughout the district. Some increase in apartment vacancies is reported to have taken place this year and rentals have tended to weaken in some of the larger cities. Considerable interest has been shown in recent weeks, however, in low cost multi-family rental projects of the character which may be financed under sections 207 and 210 of the National Housing Act. Construction on several such projects in the Twelfth District is expected to commence within the next few months.

Nonresidential private building undertaken in recent months has declined materially, although actual construction and equipment installation on uncompleted projects initiated during the past two years continues to provide a fair volume of work. The comparatively high level of industrial production reached in late 1936 and early 1937 encouraged the establishment of new industrial enterprises and the expansion of existing facilities in that period. A considerable amount of plant construction was actually undertaken, and more was planned, if not definitely budgeted. With the sharp curtailment in business activity after mid-1937, however, plans and budgeted programs of many firms have been abandoned or indefinitely deferred. With plants operating considerably below capacity there is no immediate urge to expansion, and little or no economy is apparent in increasing facilities at this time to take care of future requirements because costs of construction have not been reduced appreciably from the high levels reached a year ago.

AGRICULTURE

Weather conditions during March and the first three weeks of April were generally favorable to agriculturists throughout the district. Precipitation was above normal during March, and, while flooded land and wet soil conditions delayed farming operations, seeded crops made good growth and the outlook for irrigation water improved. Some shifting from grain and early field crops to late crops has been reported from areas where rains washed out plantings or delayed crop seeding. Warm dry weather during April aided the growth of feed on livestock ranges which are now in good condition.

Cash income of farmers and livestock raisers in the Twelfth District was about 14 percent smaller during the first three months of 1938 than in the same period last year, chiefly reflecting lower prices. Income from the marketing of crops was some 30 percent smaller, while returns to livestock growers were 6 percent larger than a year ago. About 15 percent of annual farm cash income in the Twelfth District is usually received from products marketed during the first quarter of the year.

Three crops—wheat, apples, and potatoes—customarily account for more than 60 percent of total income from farm crops in the Pacific Northwest, and prices of these products have declined severely from the levels of a year ago. Production of these three crops exceeds local consumption and a fairly large proportion of the annual

output is sold in other sections of the United States. Foreign markets also constituted an important outlet in earlier years for wheat and apples grown in the Pacific Northwest, but exports have declined in importance since 1930. Prices paid local farmers for the three crops consequently reflect those prevailing in national markets. In 1937 output of wheat, apples, and potatoes in the United States was large and prices paid farmers have declined markedly since last fall. In the Pacific Northwest, farm prices for wheat have declined from about \$1.00 a bushel last summer to \$.70 a bushel in March; apple prices have dropped from \$1.10 to \$.45 a bushel; and potato prices from \$.75 to \$.30 per bushel. In March 1937 prices paid growers were \$1.00, \$1.20, and \$1.50 per bushel for wheat, apples, and potatoes, respectively.

Despite the prevailing low prices, acreage planted to wheat and potatoes has not been curtailed this year. In fact 2,910,000 acres were sown to winter wheat last fall and winter in Oregon, Washington, and Idaho compared with 1,748,000 acres harvested in the previous season, and spring wheat acreage decreased from 2,668,000 to 1,862,000 acres. Reflecting the increased acreage and favorable early growing conditions, the winter wheat crop in that area was forecast on April 1 at 59,972,000 bushels compared with 39,593,000 bushels harvested last year and an annual average outturn of 53,465,000 bushels during the 10 years 1927-1936. No estimates of the spring wheat crop are available at the present time but growing conditions have been generally favorable. Judging from reported intentions of farmers to plant, acreage devoted to potatoes in the Pacific Northwest is practically unchanged from a year ago.

Livestock range and pasture prospects throughout the district are the best in several years, according to reports from livestock growers on April 1. Livestock came through the winter with only minor losses of animals. The early lamb crop is expected to be much larger than in 1937 when losses from storms were heavy. Marketing of early lambs began in Arizona and California late in March but the movement was light until the last of April. Eastern shipments of lambs from California through April 18 totaled 41,227 head compared with 55,392 head shipped through the same date last year. Prices to growers have been from \$7.00 to \$9.00 per hun-

Production and Employment—

	Index numbers, 1923-1925 daily average=100					
	With Seasonal Adjustment (1938 1937)			Without Seasonal Adjustment (1938 1937)		
	Mar.	Feb.	Mar.	Mar.	Feb.	Mar.
Industrial Production						
Manufactures (physical volume)						
Lumber	63	55	85	58	44	79
Refined oils	—	—	—	156	157	154
Cement	55	73	93	56	65	93
Meat	119	116	124	—	—	—
Wheat flour	116	118	118	114	118	115
Minerals (physical volume)						
Petroleum	—	—	—	110	111	90
Lead (U. S.)*	64	67	75	65	69	77
Silver (U. S.)*	96	93	..	104	102
Construction (value)						
Urban residential building permits in 18 cities	31	27	43	34	25	46
Public works contracts	—	—	—	156	487	108
Miscellaneous						
Electric power production....	190	196	195	176	180	181

*Prepared by Board of Governors of the Federal Reserve System.

Note: Series on employment and pay rolls, usually published in this table, are in process of revision.

dred pounds, compared with prices ranging from \$10.00 to \$12.00 per 100 pounds last season.

CREDIT

As a part of the Government's program for encouragement of business recovery, the Board of Governors of the Federal Reserve System on April 15 announced a reduction in member bank reserve requirements, effective April 16. This action had the effect of increasing excess reserves of Twelfth District member banks by \$63,000,000, but did not change the total volume of reserve deposits. During the two weeks prior to April 15 reserve balances of Twelfth District member banks averaged \$573,335,000, of which \$111,500,000 were in excess of legal requirements. The percentages of deposits now required as reserves are about the same as were required from March 1 to May 1, 1937.

PERCENTAGES OF MEMBER BANK DEPOSITS REQUIRED TO BE CARRIED AS RESERVES

Location of Member Banks and Classes of Deposits	Prior to Aug. 16 1936	Dates Effective			
		Aug. 16 1936	Mar. 1 1937	May 1 1937	Apr. 16 1938
Demand Deposits					
Central Reserve Cities†	13	19½	22¾	26	22¾
Reserve Cities‡	10	15	17½	20	17½
Other	7	10½	12¾	14	12
Time Deposits					
All Member Banks	3	4½	5¼	6	5

†New York and Chicago are central reserve cities.
‡Reserve cities in the Twelfth District include Los Angeles, Oakland, San Francisco, Portland, Seattle, Spokane, Salt Lake City, and Ogden.

To a considerable extent, banking funds released by the reduction in reserve requirements were not retained by district member banks as excess reserves but were promptly invested in Government securities. In the week ending April 20, investments of weekly reporting member banks in direct and guaranteed obligations of the United States increased \$29,000,000. For all member

banks in the district, the increase exceeded \$40,000,000. In the week ending April 27, a further substantial expansion in investments of district banks took place.

The securities purchased by local member banks were acquired almost entirely in eastern markets and payments for these securities resulted in a large net transfer of funds from the district. Interdistrict movements of funds for the accounts of banks and their customers resulted in a net outflow of \$49,100,000 in the week ending April 20 and \$57,200,000 in the week ending April 27, compared with an average weekly net outflow of \$5,800,000 since the first of the year. This drain upon district banking funds was offset in small part by United States Treasury disbursements in excess of local collections and by a local reduction in money in circulation. Consequently, actual reserve balances of district member banks declined \$77,200,000 in the two weeks, the decrease absorbing considerably more than the \$63,000,000 increase in excess reserves resulting from the April 16 reduction in reserve requirements.

As already indicated, the reduction of reserve requirements did not directly affect the amount of member bank reserve balances in the Twelfth District or, for that matter, in the United States as a whole. It simply reduced the proportion of those balances which was required to be maintained against deposits held by the member banks and increased the proportion of total reserve deposits in the form of idle or excess reserves. (Under the lower reserve requirements a greater expansion of credit on a given amount of reserves becomes permissible.) The amount of member bank reserve balances will be affected, however, by expenditure of approximately \$1,400,000,000 of United States Treasury funds which were made available by release on April 14 of inactive gold that had been held in the Treasury. Most of this gold had been accumulated under the so-called "gold sterilization" program adopted on December 21, 1936. Under that program, purchases by the Treasury of imported or domestic gold were paid for from the proceeds of new securities issues. Payments by the Treasury for the gold increased member bank reserve balances, but these additions were offset by payments to the Treasury for the new securities issued in similar amounts. Consequently, acquisitions of gold by the Treasury were effectively prevented from increasing member bank reserve balances.

In releasing this inactive gold on April 14, the Treasury used it as the basis for the issuance of gold certificates which were deposited in its checking account with the Federal Reserve banks. As these funds are paid out by the Treasury to meet the ordinary and emergency expenses of the Federal Government, they will be added to member bank reserve balances. Bank deposits will also expand and some portion of the increase in reserve balances will be absorbed as required reserves. A considerably larger portion, however, will take the form of excess reserves.

Because of the large volume of excess reserves held by banks in the Twelfth District since 1933, banks have been in a position to meet all deserving requests for credit at unusually low rates of interest. Through adding further to the existing volume of idle funds of district banks, the reduction in reserve requirements and the release of the Treasury's inactive gold will tend to assure the continuation of easy money conditions in the district.

Distribution and Trade—

Index numbers, 1923-1925 average=100

	With Seasonal Adjustment—1937			Without Seasonal Adjustment—1937		
	Mar.	Feb.	Mar.	Mar.	Feb.	Mar.
Retail Trade						
Department store sales (value)*						
Twelfth District	89	90	102	81	76	97
California	94	95	109	86	81	104
Los Angeles	88	88	105	82	78	101
Bay Region	99	101	111	88	85	105
San Francisco	99	98	110	87	84	104
Oakland	107	109	124	94	87	116
Pacific Northwest	72	69	81	64	55	75
Seattle	80	77	91	69	61	82
Spokane	58	56	66	48	45	57
Salt Lake City	74	76	81	63	60	73
Department store stocks (value)†	66	66	68	68	64	70
Furniture store sales (value)*‡	67	68	89	61	62	80
Furniture store stocks (value)†‡	75	77	77	75	73	77
Automobile sales (number)*						
Total	—	—	—	72	64	160
Passenger	—	—	—	64	57	158
Commercial	—	—	—	150	137	188
Carloadings (number)*						
Total	75	79	91	71	65	85
Merchandise and misc.	87	93	103	80	78	94
Other	60	59	76	59	50	74
Intercoastal Traffic (volume)						
Total	53	49	99	53	44	99
Eastbound	45	39	58	42	34	54
Westbound	86	84	239	91	76	253

*Daily average. †At end of month. ‡1929 average=100.

Summary of National Business Conditions

Prepared by the Board of Governors of the Federal Reserve System

IN March and the first three weeks of April industrial activity continued at about the same rate as in January and February. Distribution of commodities to consumers showed less than the usual seasonal increase and wholesale commodity prices declined further.

PRODUCTION

Volume of industrial production showed little change from February to March and the Board's index, which is adjusted for the number of working days and for usual seasonal variations, remained at 79 percent of the 1923-1925 average. In the steel industry, output of ingots averaged 33 percent of capacity in March and continued at about this level in the first three weeks of April. Shipments of finished steel in March, as in other recent months, were at a somewhat higher rate than output. Automobile production, which usually expands sharply at this time of the year, showed little change from the low level of January and February, and output of tires and plate glass likewise remained at a low rate. In the lumber and cement industries there were considerable increases in output in March at cotton and silk textile mills and shoe factories activities rose somewhat, while production at woolen mills declined, following a rise in February. Declines were reported also for meat packing and sugar refining. At mines, where production decreased generally in February, output of bituminous coal and nonferrous metals continued to decline in March, while production of anthracite and crude petroleum increased somewhat.

Value of construction contracts awarded showed a considerable increase in March, according to figures of the F. W. Dodge Corporation. Awards for residential work, which had advanced moderately in February, increased sharply in March but were still 12 percent less than in March 1937. Contracts for other private work also increased in March, but remained considerably smaller than a year ago. The value of public projects showed an increase and was higher than last year.

EMPLOYMENT

Factory employment declined somewhat and pay rolls showed little change from the middle of February to the middle of March, although increases are usual at this season. The number employed in the machinery industries decreased considerably further. At woolen mills there was also a substantial decline, while most other manufacturing industries showed moderate declines or little change. Employment on the railroads and in the public utilities declined somewhat further in March, while in other nonmanufacturing lines there was little change in the number employed.

DISTRIBUTION

Sales at variety stores and by mail order houses increased seasonally in March, while sales at department stores showed less than the usual rise. The Board's seasonally adjusted index of department store sales declined from 88 in February to 86 in March and figures for the first three weeks of April indicate some further decline. Freight-car loadings showed little change from February to March, although a rise is usual at this time of the year. Shipments of coal declined substantially and miscellaneous loadings increased by less than the usual seasonal amount.

COMMODITY PRICES

Wholesale commodity prices generally declined from the middle of March to the third week of April. There were further decreases in prices of a number of raw and semifinished industrial commodities, and prices of some leading agricultural products also declined, reflecting in part seasonal influences. In the middle of April prices of some industrial materials advanced slightly from the lows reached earlier in the month.

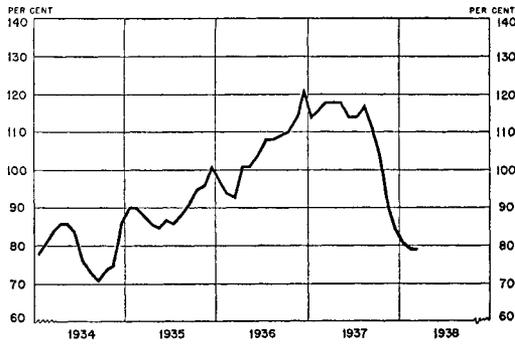
BANK CREDIT

During March and the first three weeks of April, total loans at reporting member banks in 101 leading cities declined further, reflecting a substantial reduction in loans to brokers and dealers in securities and also declines in commercial loans. Holdings of investments showed little net change, declining in March and increasing in April.

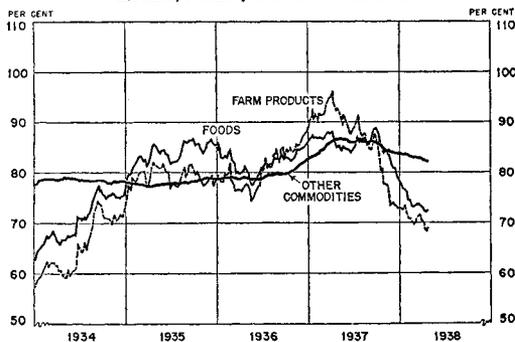
As a part of the Government's program for encouragement of business recovery, the Board of Governors reduced reserve requirements of member banks by about \$750,000,000, effective April 16, and excess reserves correspondingly increased. As a part of the same program the treasury discontinued the inactive gold account and deposited about \$1,400,000,000 of gold certificates with the Federal Reserve banks. Additions to excess reserves from this source will occur as the Treasury draws upon these deposits to meet current expenditures and the retirement of Treasury bills.

MONEY RATES AND BOND YIELDS

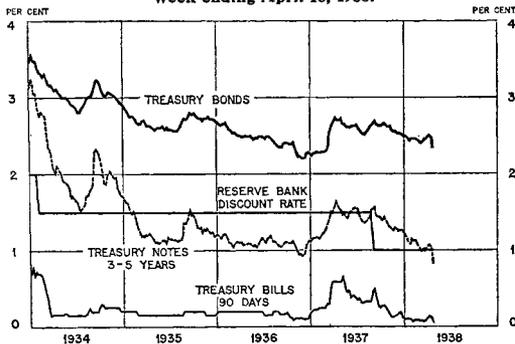
Yields on Treasury bonds declined from a level of 2.50 percent in the first half of April to 2.32 percent on April 22. The average yield on 3-5 year Treasury notes declined to a new low of 0.81 percent, which compares with the previous low of 0.91 percent in December 1936. The rate on three-month Treasury bills declined to virtually a no-yield basis. Other short-term open-market money rates remained unchanged in the first three weeks of April.



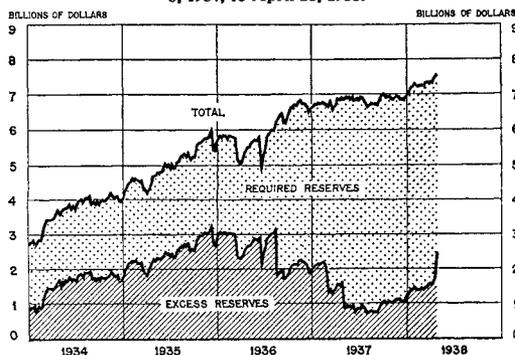
INDUSTRIAL PRODUCTION
Index of physical volume of production, adjusted for seasonal variation, 1923-1925 average=100. By months, January 1934 to March 1938.



WHOLESALE PRICES
Indexes compiled by the United States Bureau of Labor Statistics, 1926=100. By weeks, 1934 to week ending April 16, 1938.



MONEY RATES IN NEW YORK CITY
Discount rate of Federal Reserve Bank; weekly averages of daily yields on 3 to 5-year Treasury notes and on Treasury bonds callable after 8 years, and weekly average of daily dealers' quotations on 90-day Treasury bills or rate on new bills offered in week. For weeks ending January 6, 1934, to April 23, 1938.



MEMBER BANK RESERVES
Wednesday figures of total member bank reserve balances at Federal Reserve banks, with estimates of required and excess reserves, January 3, 1934 to April 20, 1938.