MONTHLY REVIEW

BUSINESS CONDITIONS IN THE TWELFTH FEDERAL RESERVE DISTRICT

Federal Reserve Bank of San Francisco *March 1, 1937*

Review of the Month

Business activity in the Twelfth District, which was reduced during November and December by the stoppage of water-borne commerce, declined further in January, primarily because of inclement weather. Extreme cold also caused considerable damage to citrus fruits and winter wheat and resulted in losses of livestock on ranges. Recovery which followed the resumption of maritime commerce on February 5 was somewhat retarded in early February by storms in the Pacific Northwest. Later in the month, however, both industrial activity and trade appears to have increased substantially.

The most important decrease in output during January came in the lumber industry. Logging operations in the district are always curtailed during the winter months, particularly in the western pine area, but heavy snows caused an unusually large reduction this year. The shortage of logs, in turn, restricted sawmill output. In the Douglas fir area, lumber production was also affected during January by a lack of storage space for finished lumber resulting from the accumulation of inventories during the maritime strike. Both of these influences continued to restrict output in the Douglas fir region during the first week of February. In the second week of that month, however, production advanced sharply, although it was still considerably smaller than in the months immediately preceding the strike.

Because of stoppage of water-borne shipments, a large portion of the orders received by mills in the Douglas fir region could not be filled during November, December, and January. As a result, unfilled orders had increased by early February to more than one billion board feet, a figure equivalent to one-sixth of total production in 1936. Partly reflecting this situation, prices recently have advanced to a level higher than at any time since 1929.

Output also declined in several important food processing industries during January. Livestock slaughter, which fluctuates irregularly from month to month, decreased considerably from the high December level. Activity at fish canneries was reduced in part because stormy weather prevented fishing during most of the month and in part because of labor difficulties. Flour milling, which declined sharply last November, particularly at seaboard mills in the Pacific Northwest, advanced somewhat in January, but output remained considerably lower than the monthly average during 1936.

Output of most other industrial products for which data are available was about as large in January as in December. Daily average crude oil production, which has fluctuated within a narrow range since last March, remained at the December level. Output of refined oils, including gasoline, increased slightly for the second successive month, and inventories advanced further, as is usual at this time of year. In the steel and paper and pulp industries, operations remained near capacity levels.

Decreased activity in the lumber and food products industries was accompanied by reductions in employment and pay rolls. Largely reflecting these decreases, this bank's seasonally adjusted index of employment in the three Pacific Coast states declined two percent from the high December figure and the index of pay rolls declined three percent.

The value of new private construction undertaken, as indicated by urban building permits, was about 5 percent smaller in January than in December. The decrease resulted from lower residential building, which has declined in each month since last October. Although a large part of the reduction this winter may be attributed to stormy weather, the shortage of materials resulting from the maritime strike probably has been a depressing influence also.

The curtailment in logging operations was the most important single factor contributing to greater than seasonal decline in district freight carloadings in January, although unusually large reductions occurred in rail shipments of a wide variety of products. After allowance for seasonal influences, carloadings were eight percent lower than in December. The adjusted figure for January was, however, higher than in any other month since June 1930, partly reflecting diversion to rail of considerable freight that would ordinarily move by water. Inasmuch as the strike of maritime workers was not settled until early in February, there was no movement of goods through the Panama Canal in intercoastal traffic during January, nor was there water-borne commerce between Pacific Coast ports, except tanker shipments of petroleum.

The value of sales of department stores, which advanced even more than seasonally in December, decreased slightly more than is usual in January in all reporting centers. Furniture store sales, on the other hand, declined less than is usual from the high December level, and the adjusted index advanced to a figure only slightly lower than in August 1936, when it was higher than in any month in the preceding six years.

The value of Twelfth District agricultural products marketed, which is a reasonably satisfactory indicator of changes in farmers' cash income, is estimated to have been moderately higher in January 1937 than in January 1936. The volume of marketings was somewhat lower than a year ago,

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partly because the strike of maritime workers prevented movement of goods by water, but prices received by farmers and livestock growers were considerably higher.

Storms and freezing weather during January caused heavy losses of several important crops and of newborn lambs. It is too early to judge the effects upon farm income this season, since it is not apparent how much prices of the crops affected will be changed by the reduced supplies.

Citrus fruits appear to have been most seriously damaged by the abnormally low temperatures. The United States Department of Agriculture estimate of California orange production during 1937 was reduced 13,252,000 boxes during January and on February 1 was 24,432,000 boxes. Last year's crop totaled 33,049,000 boxes, approximately the same as average annual output from 1928 through 1932. Reflecting the sharp reduction in estimated output, prices advanced 50 percent during January. The California lemon crop was also seriously damaged by the January freeze, the crop estimate declining 2,484,000 boxes during the month to 5,832,000 boxes. This estimate indicates a crop 25 percent smaller than in 1936 and 20 percent below the 1928-1932 average. Prices advanced sharply during January and in early February were 30 percent higher than a year earlier. Current reports indicate that damage to citrus fruit trees, as distinct from this season's crop, has not been widespread or severe.

In the Pacific Northwest, further damage was caused to the winter wheat crop in January, and the proportion of the crop frozen out this season is larger than usual. While this reflects an immediate loss to farmers, the damaged areas are likely to be re-sown this spring.

The livestock industry also felt the effects of severe weather during January. Extremely heavy snows on ranges resulted in unusually large requirements for supplemental feeding and feed prices advanced sharply, adding to production costs of livestock growers. The unfavorable weather retarded growth of early lambs in Arizona and California, and losses of lambs in California have been considerably larger than usual.

Total earning assets of Twelfth District reporting member banks were practically unchanged in the four weeks ending February 17, an increase in loans approximately offsetting a reduction in holdings of securities. The increase in loans took place principally in the "all other" loan classification, and in acceptances purchased and held. The reduction in investments occurred in holdings of securities other than direct obligations of the United States Government. Adjusted demand and time deposits fluctuated with little net change.

Since the first of the year the United States Treasury has made several calls upon depositary banks to transfer portions of its deposits to the Treasury's general checking accounts at the Federal Reserve banks. These payments have augmented Treasury collections from taxes and other sources, and, in the Twelfth District, Treasury disbursements in excess of total collections have been smaller than usual. As a result, net disbursements in this region by the Federal Government since January 1 have not added materially to member bank reserves, whereas for several years previously local disbursement by the Treasury of funds collected in other districts had been the main factor increasing reserve balances of Twelfth District banks. Other factors which affect member bank reserve balances have also caused little net change since the beginning of the year. Although expansion in member bank reserves has been comparatively small this year, most member banks now possess substantial amounts of reserves in excess of legal requirements and have idle funds on deposit with correspondent banks. The increase in reserve requirements ordered by the Board of Governors, effective March 1 and May 1, should, therefore, cause little or no additional borrowing from the Reserve Bank.

United States Treasury Purchases of Gold in the Twelfth District

United States Government purchases of newly mined, scrap, and imported gold in the Twelfth Federal Reserve District totaled $144,000,000 during 1936. This total was considerably higher than in other recent years except 1930, 1931, and 1932, when large amounts of gold were imported, principally from Japan, through Pacific Coast ports.

Although it was not mandatory that all imported and newly produced gold be sold to the United States Government until 1933, the Government or the Federal Reserve banks were in practice the buyers of most of the gold coming onto the market in earlier years. The small amounts of gold sold to buyers other than the Government or the Federal Reserve banks prior to 1933 had no significant effect upon banking. They did not enter the monetary system in the form of reserves, and did not increase

Production and Employment—

Index numbers, 1923-1925 average—100	With Seasonal Adjustment			Without Seasonal Adjustment		
	1937	1936		1937	1936	
Industrial Production	Jan.	Dec.	Jan.	Jan.	Dec.	Jan.
Manufactures (Physical volume)						
Lumber	68	81	84	48	62	60
Refined Oils*	—	—	—	154	155	152
Cement*	134	150	120	94	111	84
Meat*	111	126	105	—	—	—
Wheat Flour*	95	89	111	95	89	111
Minerals (Physical volume)						
Petroleum*	—	—	—	88	88	103
Lead (U. S.)*‡	..	80	63	..	81	63
Silver (U. S.)*‡	..	..	80	..	..	81
Construction (value)						
Total Construction†	69	78	90	63	77	82
Urban Building Permits						
Residential	—	—	—	34	36	20
Nonresidential	—	—	—	45	58	27
Total (incl. alterations, etc.)	—	—	—	37	43	25
Public Works†	—	—	—	158	193	315
Miscellaneous						
Electric Power Production	200	192	179	185	181	166
Factory Employment and Pay Rolls						
Pacific Coast						
Employment	112	113	105	99	104	93
Pay Rolls	94	97	84	84	91	74
California						
Employment	125	126	114	111	116	101
Pay Rolls	109	115	94	99	109	85

*Daily average. ‡Prepared by Board of Governors of the Federal Reserve System. †Indexes are for three months ending with the month indicated.

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bank deposits materially. Since 1933, however, all newly mined, scrap, and imported gold has by law been sold only to United States Government agencies, and has thus had a direct effect upon the banking system.

United States Treasury Purchases of Gold in the Twelfth Federal Reserve District
(In millions of dollars)

Year	Domestic Production and Scrap	Imports	Total
1929	29.9	5.7	35.6
1930	42.2	177.0	219.2
1931	35.2	236.1	271.3
1932	43.2	99.1	142.3
1933	28.8	20.4	49.2
1934	85.3	16.7	102.0
1935	92.2	12.8	105.0
1936	116.1	28.0	144.1

As will be seen from the table, the bulk of gold sold to the Treasury in the Twelfth District during 1934, 1935, and 1936 came from new domestic production and sales of scrap, with imports providing a relatively small proportion of the total amount purchased. Most of the newly mined gold came from the states comprising the Twelfth District and from Alaska. The increase since 1933 in dollar value of domestic gold sold to the Treasury reflects in part the advance in the Treasury's buying price, and some increase in sales of scrap gold induced by the higher price. The bulk of the advance in dollar value, however, represents expansion in output of mines in the seven western states and Alaska. In 1932, new gold production in those states and Alaska totaled 1,406,000 fine ounces, the lowest volume produced in any year since 1897. Only a small increase to 1,448,000 ounces was reported for 1933, but thereafter the quantity of gold produced in this region increased markedly and in 1936 is estimated to have totaled 2,550,000 fine ounces.

The income derived by gold producers from sale of their product is of use in the same way as income received by producers of any other commodity. Use of the gold in connection with the banking system, however, gives it a significance different from that possessed by other commodities.

When the Treasury buys gold, payment is made by a check drawn against the Treasury's account at the Federal Reserve Bank. For the most part, these checks are payable to mine operators and dealers in scrap. When individuals or firms deposit the Treasury checks, district bank deposits are increased, and bank assets in the form of uncollected checks rise by an equal amount. When the banks present those checks to the Federal Reserve Bank, the Treasurer's account is debited and the accounts of the member or non-member banks are credited.

On a consolidated statement of condition of Twelfth District member banks, the initial effect of purchases of gold by the San Francisco Mint is to cause (a) an increase in bank deposit liabilities, (b) an increase in member bank reserve deposits. The effect upon the Reserve Bank statement is (a) an increase in deposit liabilities to member banks (b) a decrease in deposit liabilities to the United States Treasury. In order to rebuild its checking account at the Reserve Bank, the Treasury has customarily issued gold certificates or credits to the Reserve Bank, thus adding to Reserve Bank assets, and at the same time building up the deposit liabilities of the Reserve Bank to the Treasury.

Although these Treasury payments for gold initially cause an increase in reserve balances of Twelfth District member banks, and thus tend to furnish them with more reserves for use in extending credit, this effect is frequently only temporary. This is because the imported gold sold to the San Francisco Mint is frequently consigned to the account of a New York bank, and the newly mined gold is often owned by companies with eastern headquarters to which some of the proceeds of the sales are transferred. In such cases, reserve balances and deposit liabilities of local member banks are affected only temporarily.

The influence of Treasury purchases of gold upon bank reserves was changed by a policy of the Treasury adopted December 21, 1936. Under that program, the Treasury stated, in effect, that it would pay for gold, whether imported or of domestic origin, with funds borrowed in the open market rather than by issuing gold certificates against the newly purchased gold in order to meet its expenditures. Thus, Treasury payments for gold, which tend to increase member bank reserve balances, would be offset by the transfer of funds from reserve balances to the Treasury upon sale of public debt obligations. This offset applies, however, only on a national basis. The effect upon Twelfth District bank reserves depends upon whether the public debt obligations to pay for the gold are sold in this district, with payments resulting in a decrease in local bank reserves, or whether the securities are sold in other districts. In any event, the policy of neutralizing the effect of gold purchases upon member bank reserves will not prevent the purchases increasing local bank deposits except as the securities are sold to local buyers other than banks.

Distribution and Trade—

Index numbers, 1923-1925 average—100	With Seasonal Adjustment			Without Seasonal Adjustment		
	1937	1936		1937	1936	
	Jan.	Dec.	Jan.	Jan.	Dec.	Jan.
Retail Trade						
Department Store Sales (value)*						
Twelfth District	97	100	87	80	171	71
California	105	108	92	88	183	78
Los Angeles	101	102	87	86	168	74
Bay Region	109	113	97	89	197	80
San Francisco	105	109	94	88	189	79
Oakland	118	124	107	92	226	84
Pacific Northwest	73	76	68	55	131	51
Seattle	80	85	74	61	152	57
Spokane	59	60	57	41	99	40
Salt Lake City	69	79	71	52	152	54
Department Store Stocks (value)†	67	66	65	61	61	59
Furniture Store Sales (value)*	89	83	76	73	120	63
Automobile Sales (number)*						
Total	—	—	—	..	177	95
Passenger	—	—	—	..	177	91
Commercial	—	—	—	..	187	144
Carloadings (number)*						
Total	93	101	84	74	81	66
Merchandise and Misc.	105	113	90	87	92	75
Other	79	85	77	57	67	55
Intercoastal Traffic (volume)						
Total	7	0	65	7	0	64
Eastbound	9	0	54	10	0	56
Westbound	0	0	99	0	0	89

*Daily average. †At end of month.

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National Summary of Business Conditions

Prepared by the Board of Governors of the Federal Reserve System

INDUSTRIAL activity, adjusted for seasonal changes, showed a decline in January following a rapid rise in November and December. Distribution of commodities to consumers declined more than seasonally.

Production and Employment

Volume of industrial production, which usually increases at this time of year, declined from December to January, and the Board's seasonally adjusted index was 115 percent of the 1923-1925 average as compared with 121 in December and 114 in November. Steel production increased, though by less than the usual seasonal amount, and was larger in January than at any other time during the recovery period. In the first three weeks of February, output of steel increased somewhat further. Output of automobiles was curtailed by strikes in January and the first half of February, but after the strikes were settled production rose sharply. At lumber mills there was a considerable decrease in activity in January, reflecting in part the effects of unusually cold weather in the western lumber regions. Production of plate glass declined further in January, but toward the end of the month the strikes which had restricted output since October were settled. At textile mills activity declined from the exceptionally high level reached in December, and in the meatpacking industry there was also a decrease, while output at shoe factories increased. Mineral production was smaller in January than in December, reflecting a reduction in output of coal. There was a further rise in output of crude petroleum.

Value of construction contracts awarded showed a considerable rise in January, according to figures of the F. W. Dodge Corporation, and was substantially larger than a year ago. The most marked increases over December were in factory building, which recently has been in larger volume than at any time since 1930, and in residential building. The increase in residential building was largely in publicly-financed apartment construction.

Factory employment and payrolls showed about the usual seasonal decline between the middle of December and the middle of January. Among the durable goods industries there were increases in employment at blast furnaces and steel mills and at foundries and machine shops, while in the automobile industry there was a considerable decline. In industries producing non-durable goods employment declined by less than the usual seasonal amount, with increases at textile mills and in the chemical industries, and seasonal reductions in working forces in most other lines.

Distribution

Department store sales showed the usual seasonal decrease in January, while sales at variety stores and mail order houses declined considerably more than is usual. Carloadings of revenue freight also declined in January, reflecting in part the effects of floods. There were substantial declines in shipments of forest products, coal, and miscellaneous freight.

Commodity Prices

The general level of wholesale commodity prices, which, according to the Bureau of Labor Statistics, had advanced more than five percent from the end of October to the middle of January, showed little change from the middle of January to the third week of February. Prices of agricultural commodities declined slightly, while industrial commodities as a group continued to advance. There were substantial increases in nonferrous metals, lumber, and petroleum and smaller increases in a wide variety of finished products, while prices of glass and certain cotton textiles declined, following rapid increases in other recent months.

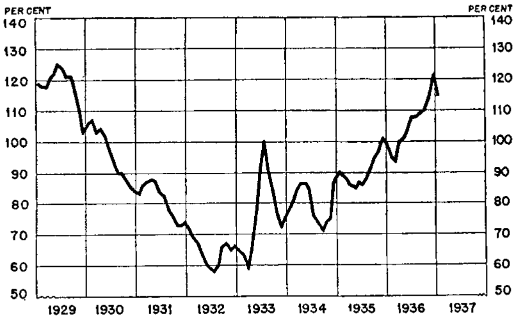
Bank Credit

Total loans and investments of weekly reporting member banks in leading cities declined somewhat further during the four weeks ending February 17, reflecting principally a decrease in holdings of United States Government obligations. Commercial loans, following a seasonal decline in January, increased at reporting banks outside New York City and remained practically unchanged in New York.

On January 31, the Board of Governors raised reserve requirements for member banks by 33⅓ percent, half of the increase to become effective on March 1 and half on May 1. This action completes the use of the Board's authority under the law to raise reserve requirements.

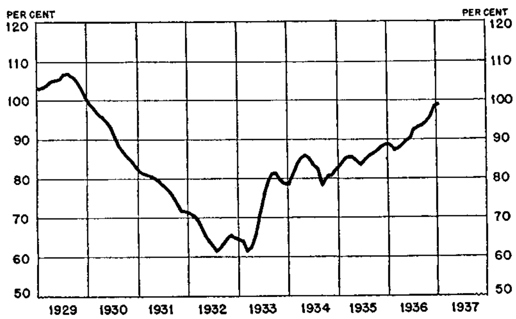
Excess reserves of member banks showed little change in the five weeks ending February 24; there was a further increase at New York City banks and a decline at banks elsewhere.

The rate on bankers' acceptances was raised $\frac{1}{16}$ percent on February 1, following a similar increase on January 16. Market yields on short and medium term Treasury obligations also increased slightly in January and the early part of February, while yields on long-term Government bonds showed little change.



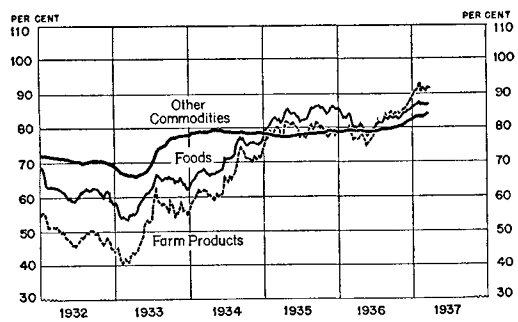
INDUSTRIAL PRODUCTION

Index of physical volume of production, adjusted for seasonal variation, 1923-1925 average=100. By months, January 1929 to January 1937.



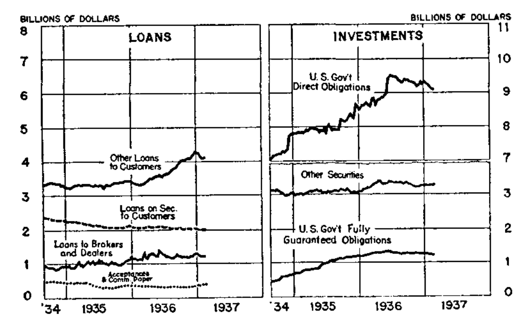
FACTORY EMPLOYMENT

Index of number employed, adjusted for seasonal variation, 1923-1925 average=100. By months, January 1929 to January 1937.



WHOLESALE PRICES

Indexes compiled by the United States Bureau of Labor Statistics, 1926=100. By weeks, 1932 to date. Latest figure is for week ending February 20, 1937.



MEMBER BANK LOANS AND INVESTMENTS

Wednesday figures for reporting member banks in 101 leading cities, September 5, 1934, to February 17, 1937. Loans on real estate and loans to banks excluded.

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