

# MONTHLY REVIEW

## BUSINESS CONDITIONS IN THE TWELFTH FEDERAL RESERVE DISTRICT

Federal Reserve Bank of San Francisco

January 1, 1939

**R**ETAIL trade, which has lagged somewhat in the recovery of Twelfth District business during recent months, advanced considerably in October and November, and preliminary data indicate about the full seasonal gain in December. The movement of freight by rail, particularly of merchandise, likewise increased sharply in November on a seasonally adjusted basis, after having shown only a slight expansion during the summer and early fall. New residential building initiated during the month was maintained at about the relatively high levels prevailing since June. Although production in the important lumber industry declined slightly, industrial activity in the district generally advanced further in November. Factory employment and payrolls also increased, after allowance for seasonal influences. On the other hand, farm income continued to show the influence of low prices for many products.

### INDUSTRY AND TRADE

Despite the moderate expansion in most other lines of activity in the district since early summer, seasonally adjusted sales of department stores did not increase until October. In fact, a decline from the unusually stable levels of the preceding seven months took place in September. That decline was principally attributable to the strike of department store employees in San Francisco, but after making full allowance for this factor a considerable reduction in the value of sales was evident. In October, a substantial increase took place, gains being reported from almost all parts of the district. These gains continued during November and, with termination of the strike in San Francisco early in the month, seasonally adjusted sales of district department stores were larger than in any other month this year and slightly greater in value than in November 1937. Weekly reports indicate that the customary large expansion in sales took place during December.

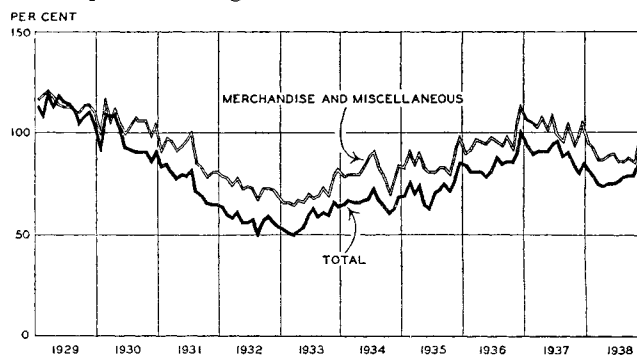
Value of both furniture and apparel store trade has followed a somewhat similar pattern in recent months. Little net change was evident in sales of these stores during the summer and early fall, but expansion of considerably greater than seasonal proportions has taken place in October and November. Registrations of new passenger automobiles, which had advanced more than seasonally in the preceding two months, advanced further in November to levels approximately as high as in the corresponding month last year. Sales of new trucks, however, were 27 percent lower in November than a year earlier.

Volume of railway freight traffic declined much less than seasonally in November and the adjusted index advanced sharply to the highest level since December 1937. The sharp advance in the index in November had been preceded by a small increase during the summer and fall months owing to an expansion in loadings of industrial products. In November, however, the increase largely reflected a much better sustained volume of merchandise

and miscellaneous freight shipments than is customary in the late fall.

New residential building undertaken in the Twelfth District declined slightly more than seasonally in November from the relatively high levels of the preceding four months. This decrease, however, appears to have been checked in December. Value of permits issued in leading district cities during the first 23 days of December point to a much better sustained level of construction of this type than is customary during the early winter. To a considerable extent, this reflects conditions in southern California, preliminary data indicating little change in the value of new residential building in that area during December although a considerable decline from the November total is usual.

In the lumber industry, which employs nearly 50 percent of all factory wage-earners working in the Pacific Northwest, production was reduced more than seasonally in November following a marked expansion since last winter. New orders received by mills continued the increase evident during October and were somewhat larger than production. A slight falling off in orders, however, was reported during the first three weeks of December.



FREIGHT-CAR LOADINGS—Twelfth District  
Daily average freight-car loadings, adjusted for seasonal variation,  
1923-1925 average=100. By months, January 1929 to November 1938.

Daily average output of crude petroleum in California, which was curtailed slightly in September and October, was about unchanged in November. Aggregate stocks of crude oil and refined petroleum products continued to increase and were larger at the end of the month than at any time since 1933. The increase has been almost continuous since early last year, and has been confined largely to fuel oils, although a considerable expansion in crude oil inventories has also taken place. Because of these large stocks, new development work has been curtailed as much as possible by a number of producers, and the industry is making aggressive efforts to bring about further voluntary curtailment of crude output.

Assembly of motor vehicles, which advanced in October, increased further in November. Major plants in southern California were reported to have been operating at near capacity levels at the month-end. Production of

rubber tires was also reported to have been higher in November than in the preceding few months.

Output in a variety of other industries was likewise greater in November than during the summer and early fall. Production of pulp and paper in the Pacific Northwest has increased slightly in recent months from the low levels prevailing at the mid-year. District steel mill operations have expanded, reflecting a moderate but general increase in demand, and cement production has gained considerably since last summer. Greater activity at motion picture studios also has been reported recently.

In mid-November, employment at district mills and factories was slightly higher than a month earlier, although a moderate decline customarily takes place at this time of year. As a result, this bank's adjusted index advanced sharply to the highest level since March. Total wages paid likewise advanced, after seasonal adjustment.

#### AGRICULTURE

The volume of marketings of district farm products declined considerably in November and early December. To a large extent, this reduction was seasonal in character. In addition, early frosts and generally unfavorable weather damaged such crops as citrus fruits, cotton, avocados, potatoes, and some truck crops which are harvested and marketed at this time of year. Farmers have also been induced by prevailing low prices to withhold non-perishable crops from the market. In this, they have been aided by the Federal Government's program of extending non-recourse loans on a number of staple commodities. Substantial sums have already been loaned on wheat and cotton grown in the district. Loans have also been made on hops. The effect of this program has been to establish minimum farm prices for these crops by enabling growers, regardless of their need for funds, to refrain from selling at prices below specified loan values.

Federal aid has also been extended to district agriculturalists in other ways. Where large supplies have threatened seriously to depress prices, the Government has bought farm products for relief distribution. A partial list of products so purchased includes butter, grapefruit, oranges, dried fruits, potatoes and beans. Wheat farmers in the Pacific Northwest will benefit by an arrangement whereby locally grown wheat is sold on the foreign market at world prices, although bought at higher domestic prices, the Government absorbing the difference. The market for a number of farm products is expected to be increased as a result of tariff concessions by Canada and England contained in the recently negotiated trade agreements with those countries. A proposal submitted to rice growers designed to regulate the volume of marketings of this crop next year was voted upon favorably by California producers, but farmers in the southern rice growing states were opposed in sufficient number to cause its abandonment. Returns from the poll of cotton growers throughout the United States, however, favored a marketing agreement for next year's crop; more than 75 percent of the California and Arizona growers voting for the proposal.

The district almond and walnut crops, recently harvested, were considerably smaller than in 1937. Output of almonds is estimated at 12,100 tons, compared with a record crop of 20,000 tons last year. Final figures for walnuts are expected to show a yield of about 11,000 tons be-

low the 60,100 tons harvested in 1937. Farm value of the almond crop in 1937 was approximately \$5,000,000 and that of walnuts was about \$10,000,000. In the aggregate, income from these two products amounted to slightly more than one percent of total district farm receipts.

Almonds are grown on a commercial basis in this country only in California, and walnuts are grown commercially only in California, Oregon, and Washington. Almost the entire almond crop is harvested in San Luis Obispo County, in the Sacramento and northern San Joaquin valleys, and in the San Francisco Bay region. Of the walnut crop, about 93 percent is grown in California and the bulk of the remaining 7 percent in Oregon. About two-thirds of the California output comes from the southern part of the state, principally from Ventura and Los Angeles counties. The San Francisco Bay region is also an important walnut producing area. In Oregon, the Willamette Valley accounts for almost the entire crop.

The bulk of these nuts has been marketed through three large co-operative growers' associations; the California Walnut Growers Association, California Almond Growers Exchange, and the North Pacific Nut Growers Co-operative in Oregon. The policy of these associations has been to fix a season price to their members and to extend advances to members on the basis of this price, thereby making possible the orderly marketing of the crops. Packing and distribution of the crops are handled by their own facilities and the associations have actively promoted sales by means of extensive advertising campaigns. Output of walnuts has increased sharply over the past decade, and the large supplies have prompted the adoption of a Federal marketing agreement under which the portion of the total crop sold on domestic markets is fixed annually. Under the terms of this agreement, 80 percent of the 1938 crop or 688,000 bags of 100 pounds each will be

#### Production and Employment—

Index numbers, 1923-1925 average = 100	With Seasonal Adjustment (1938—1937)			Without Seasonal Adjustment (1938—1937)		
	Nov.	Oct.	Nov.	Nov.	Oct.	Nov.
<b>Industrial Production*</b>						
Manufactures (physical volume)						
Lumber .....	74	77	64	72	82	63
Refined oils .....	—	—	—	168	166	168
Cement .....	108	90	107	103	103	107
Meat .....	120	116	116	—	—	—
Wheat flour .....	105	96	107	116	114	118
Minerals (physical volume)						
Petroleum .....	—	—	—	100	100	106
Lead (U. S.)† .....	..	50	79	..	52	82
Silver (U. S.)† .....	..	102	119	..	101	128
<b>Construction (value)</b>						
Residential Building Permits‡						
Twelfth District .....	48	50	28	47	51	26
Southern California .....	52	57	30	53	60	30
Northern California .....	46	41	28	41	40	24
Oregon .....	25	22	14	20	22	11
Washington .....	30	39	16	26	33	14
Intermountain states .....	85	82	40	75	83	36
Public works contracts .....	—	—	—	221	279	109
Miscellaneous						
Electric power production .....	211	198	206	200	197	195
<b>Factory Employment and Payrolls‡</b>						
<b>Employment</b>						
Pacific Coast .....	95	90	104	96	95	105
California .....	105	101	119	107	106	120
Oregon .....	76p	75	83	77p	79	84
Washington .....	84p	76	83	84p	80	83
<b>Payrolls</b>						
Pacific Coast .....	91	89	96	91	92	97
California .....	102	99	111	102	102	111
Oregon .....	75p	78	77	77p	83	78
Washington .....	73p	71	74	72p	76	74

\*Daily average. p Preliminary.

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

‡ Includes figures from 197 cities and Los Angeles County, unincorporated.

‡ Excluding fruit and vegetable canning.

sold on the domestic market and 172,000 bags will be diverted to export channels or shelled.

The market for both almonds and walnuts has been active since the opening of the current selling season early in the fall. Prices, however, have been at levels from 10 to 18 percent below those in effect a year earlier.

Except in Arizona and southern California where drought has reduced feed and stock water, district livestock ranges are in good condition. Growers report large supplies of roughage and other feeds are available throughout the district for winter requirements. Cattle and calves, and sheep and lambs generally are entering the winter in good condition. A recent survey of feed lots indicates that feeding operations will be on a much smaller scale than in the winter of 1937-1938. About 340,000 head of cattle, 64 percent of which are in Arizona and California, were on feed on December 1, compared with 430,000 head a year earlier. Lambs on feed in the district numbered 740,000, a decline of 145,000 or 16 percent from the number reported on December 1, 1937. Although feed supplies are plentiful and relatively cheap, the narrow spread between feeder stock and fat stock prices has resulted in curtailed operations in district feed lots. The unprofitable experience of operators in the past few years has also been a factor in the decline.

#### CREDIT AND BANKING

Reserve balances of member banks in the Twelfth Federal Reserve District increased considerably in the ten weeks prior to mid-December, advancing from \$523,900,000 on October 5 to \$593,200,000 on December 14. At that time, balances were slightly larger than the previous peak of \$587,500,000 reported on March 16, 1938, one month prior to the effective date of the reduction in reserve requirements ordered by the Board of Governors of the Federal Reserve System. That reduction did not change the total volume of reserve deposits of member banks at the Federal Reserve Bank of San Francisco. Excess reserves, however, were thereby increased by

about \$63,000,000, and that amount of additional funds became available to banks for loans and investments. Immediately following the April 16 reduction in reserve requirements, district member banks made substantial transfers of funds to the East to purchase Government securities. Principally because of these transfers, actual reserves of local member banks declined to \$505,000,000 of May 4. A moderate expansion took place during succeeding weeks to \$523,900,000 on October 5.

The increase of nearly \$70,000,000 in district member bank reserve balances from October 5 to December 14 chiefly reflected United States Treasury operations. In recent years, Treasury disbursements in the district for public works, relief, maintenance of the army and navy, the postal service, and the like, have substantially exceeded local collections from taxes and from other sources, such as sales of securities, loan repayments, and postal receipts. To meet these net disbursements, the Treasury has transferred funds collected in other districts, principally in New York, to its account with the Federal Reserve Bank of San Francisco. Consequently, to the extent that Treasury disbursements exceed collections in the Twelfth District, a net addition is made to district banking funds.

In the ten weeks ending December 14, net disbursements of the Treasury in the Twelfth Federal Reserve District amounted to \$93,100,000 and funds to that amount were thus added to member bank reserve balances. During the same period, however, local reserves were drawn upon to the extent of \$14,100,000 because of a net balance of payments by individuals, business concerns, and banks to persons located outside the Twelfth District. Local bank reserves were also drawn upon to meet an increase of \$10,800,000 in demand for currency. In the aggregate, these and other minor changes explain the net expansion of about \$70,000,000 in district member bank reserves between early October and mid-December.

This large expansion in reserves up to December 14 was followed by a reduction of \$37,500,000 in the week ending December 21. During that week, allotments to district purchasers of new issues of Treasury notes and bonds dated December 15 amounted to \$48,540,000, exclusive of exchanges for maturing issues. Of this total, \$10,254,000 was paid for with deposit credit, and \$38,286,000 was paid for in cash. This large cash payment for securities, together with fourth quarter income tax receipts, swelled Treasury collections which totaled considerably more than local Treasury disbursements and thus drew down member bank reserve balances.

In the period of rapidly expanding reserves prior to December 14, deposits against which member banks must maintain specified minimum reserves were also increasing. Consequently, some portion of the increased reserves was absorbed in meeting the larger requirements. The bulk of the increase, however, took the form of excess reserves. As a result, during November and the first half of December, excess reserves of district member banks were larger than at any previous time except for a brief period immediately prior to the original increase in reserve requirements effective August 15, 1936. With only a small reduction in deposits, and consequently in reserve requirements, in the week ending December 21, the sharp reduction in total reserves was reflected almost entirely in a decrease of excess reserves to around \$140,000,000.

#### Distribution and Trade—

Index numbers, 1923-1925 average=100	With Seasonal Adjustment— 1938—1937			Without Seasonal Adjustment— 1938—1937		
	Nov.	Oct.	Nov.	Nov.	Oct.	Nov.
<b>Retail Trade</b>						
Department store sales (value)*						
Twelfth District.....	96	88	96	102	91	102
California .....	103	91	103	109	92	109
Los Angeles.....	98	95	97	102	97	101
Bay Region.....	108	79	108	116	79	115
San Francisco.....	106	64	107	115	63	116
Oakland .....	116	115	111	122	117	116
Pacific Northwest.....	75	72	73	77	81	75
Seattle .....	84	80	80	88	84	84
Salt Lake City.....	72	88	73	79	95	80
Department store stocks (value)†	66	62	73	74	68	82
Furniture store sales (value)*‡...	78	76	80	81	79	83
Furniture store stocks (value)†‡...	67	67	79	70	69	83
Automobile sales (number)*						
Total .....	—	—	—	95	66	99
Passenger .....	—	—	—	96	63	97
Commercial .....	—	—	—	87	95	120
<b>Carloadings (number)*</b>						
Total .....	85	79	81	85	97	81
Merchandise and misc.....	98	86	99	97	112	98
Other .....	68	70	57	70	78	59
<b>Intercoastal Traffic (volume)</b>						
Total .....	58	60	59	60	66	61
Eastbound .....	49	49	44	53	56	48
Westbound .....	90	95	114	83	99	104

\*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

**T**HE sharp rise in industrial production, which began early last summer, continued in November. Preliminary reports for the first three weeks of December indicate some slowing down in the advance. Employment also increased in November and payrolls showed little change, although a decline is usual at this season. Distribution of commodities to consumers increased considerably.

### PRODUCTION

The Board's seasonally adjusted index of industrial production in November rose to 103 percent of the 1923-1925 average from 96 percent in October. Output of steel continued to increase, contrary to the seasonal trend, and there was a further sharp rise in automobile production. In the first three weeks of December, activity at steel mills declined somewhat more than seasonally, while output of automobiles continued at the high level reached at the end of November. Lumber production in November decreased by more than the usual seasonal amount. In the nondurable goods industries, shoe production declined seasonally, while output of textiles showed a considerable expansion, with increased activity at cotton, wool, and silk mills. At mines, bituminous coal output increased further and production of anthracite showed less than the usual seasonal decline. Output of petroleum showed little change.

Value of construction contracts awarded in November showed a decline from the high level reached in October, according to F. W. Dodge figures for 37 eastern states. Both private and public projects declined, following increases in October. The decline in contracts for private residential building was less than seasonal.

### EMPLOYMENT

Employment increased somewhat further and payrolls showed little change between the middle of October and the middle of November, although declines are usual at this time of year. In manufacturing, the number employed continued to rise, reflecting principally a further sharp increase at automobile factories and substantial increases in the machinery, steel, and textile industries.

Employment declined seasonally at establishments producing clothing and shoes—in most other industries employment increased somewhat. In lines other than manufacturing, employment showed some increase, when allowance is made for usual seasonal changes.

### DISTRIBUTION

Distribution of commodities to consumers showed a considerable increase in November. Department store sales and mail order sales, which had been retarded in October by unseasonably warm weather, rose sharply, and sales at variety stores also increased in November. Sales of automobiles to consumers expanded sharply following the introduction of new models and in November were larger than a year earlier.

Freight-car loadings, which had increased considerably in previous months, showed a slightly less than seasonal decline in November.

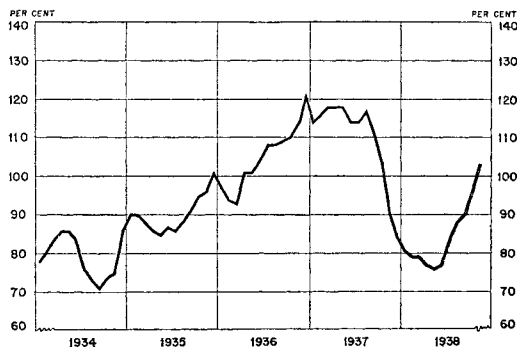
### COMMODITY PRICES

Prices of some industrial materials, such as nonferrous metals, hides, and cotton goods, decreased somewhat from the middle of November to the third week of December. Sugar prices also declined, while grains advanced somewhat. Prices of most other agricultural and industrial commodities continued to show little change.

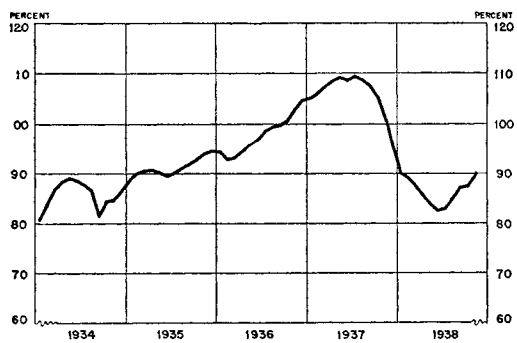
### BANK CREDIT

In connection with pre-holiday trade, there was a sharp increase in money in circulation and as the result of this increase in the demand for currency, together with Treasury operations around December 15, there was a temporary decline in member bank reserves.

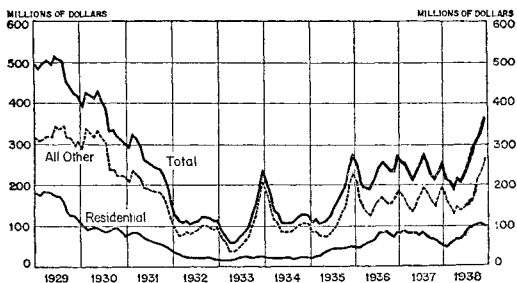
Following declines during November, total loans and investments of reporting member banks in 101 leading cities increased during the first three weeks of December, largely reflecting operations of the Treasury. Loans to security dealers by New York banks increased sharply, reflecting temporary borrowing for the purpose of carrying Government securities exchangeable for new issues on December 15. Adjusted demand deposits rose to a new high level in the first half of December.



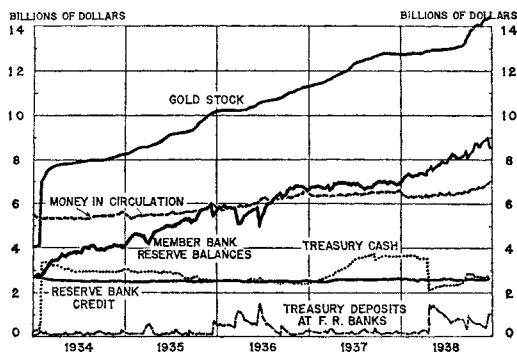
**INDUSTRIAL PRODUCTION**  
Index of physical volume of production, adjusted for seasonal variation, 1923-1925 average=100. By months, January 1934 to November 1938.



**FACTORY EMPLOYMENT**  
Index of number employed, adjusted for seasonal variation, 1923-1925 average=100. By months, January 1934 to November 1938.



**CONSTRUCTION CONTRACTS AWARDED**  
Three-month moving averages of F. W. Dodge data for value of contracts awarded in 37 eastern states, adjusted for seasonal variation. Latest figures based on data for October and November and estimate for December.



**MEMBER BANK RESERVES AND RELATED ITEMS**  
Wednesday figures, January 3, 1934 to December 21, 1938.