

# MONTHLY REVIEW

## BUSINESS CONDITIONS IN THE TWELFTH FEDERAL RESERVE DISTRICT

Federal Reserve Bank of San Francisco

September 1, 1939

**T**HE gains in Twelfth District business volumes noted during May have been retained during the past three months. Aggregate industrial output in July was fully as large as in May, after allowance for the customary seasonal influences, and factory employment was as high as in any month since January. New residential building declined considerably in July following the sharp expansion in June, but a sharp advance in the seasonally adjusted index for August is indicated by preliminary data. For June and July combined, the adjusted index of building permits was as high as in any of the spring months this year. Movement of freight by rail has been unchanged since May and consumer purchases of goods have been seasonally well maintained.

New lumber orders received by mills in July were slightly higher on a daily average basis than in June, marking the fifth successive monthly increase, and further gains in the first three weeks of August carried the average to the highest level since 1929. New business during that period was reported at an average rate of 44,500,000 board feet per day. The recent expansion in volume of new business has exceeded the rise in production, which has advanced substantially since March of this year. As a result, unfilled orders have increased considerably and on August 19 totaled about 925,000,000 board feet, the highest level in over two years. Average mill prices in the Douglas fir area have advanced about 4 percent from the spring lows, most of the increase occurring in late July and August.

In the furniture and copper industries little net change in output has been reported since April or May. In the automobile assembly industry, operations have been fairly stable since May, after declining earlier in the year, while in the aircraft industry activity has increased persistently and is now at record levels.

After declining contraseasonally since January gasoline production in California advanced moderately in June and July. Demand for products of the Pacific Coast petroleum industry comes almost entirely from local and trans-Pacific markets, and the industry meets no important competition in those markets from the remainder of the domestic petroleum industry. Hence the temporary shutting down of oil wells in several midcontinent states has had no tangible effect upon the local industry.

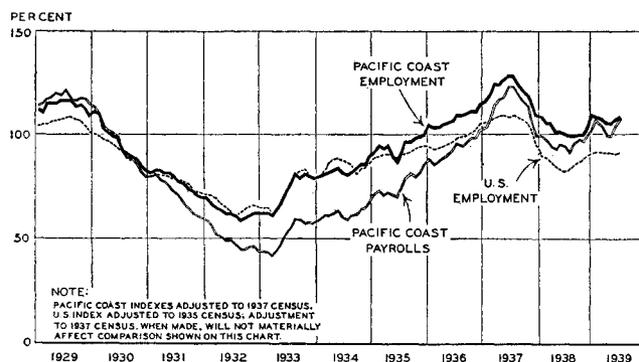
District flour mills continued to operate close to post-war record levels in July. The current high rate of operations largely reflects unusually heavy orders for flour received from the Orient earlier in the year. In June and July, however, new orders from that source declined sharply to a relatively insignificant total.

The total fruit and vegetable pack will probably be about the same this season as in 1938. An asparagus pack of 1,849,000 cases was completed June 6, and was 3 percent larger than the smaller than average output in 1938. The apricot pack is tentatively estimated at 2,750,000 to 3,000,000 cases, nearly twice as large as production last year. It now appears, however, that district packs of spinach, peas, cling peaches, and possibly pears will be

smaller than in 1938. Unsold stocks carried over from last year were generally smaller this year than at the beginning of the 1938 packing season. Reflecting these conditions, quotations for important fruit and vegetable products have been firm to advancing in recent weeks and now average somewhat higher than a year ago.

### FACTORY EMPLOYMENT AND PAYROLLS

Revised indexes of factory employment and payrolls in the three Pacific Coast states are shown in the following chart. These series supersede indexes computed in 1938 and published by this bank during the past 14 months. The new indexes have been adjusted to the levels indicated by the 1937 Census of Manufactures, with the result that the level currently is somewhat higher than that of the previous indexes. Factors used in adjusting for seasonal variation have been brought down to date,



### FACTORY EMPLOYMENT AND PAYROLLS

Indexes of number employed and payrolls, adjusted for seasonal variation, 1923-1925 average=100. By months, January 1929 to June 1939. (Fruit, vegetable, and fish canning industries excluded from Pacific Coast indexes).

and data for certain industries no longer classed by the Census as "manufacturing" have been excluded. As in the past, employment and payrolls in the fruit and vegetable canning industry, because of extreme and irregular seasonal fluctuations, continue to be excluded from the indexes. For the same reason, the fish canning industry has been excluded from the revised indexes. Industries covered by the indexes employed about 450,000 workers in the three Pacific Coast states in the summer of 1937. About 32,000 workers were then occupied in like industries in other district states not covered by the indexes.

On the revised basis, the seasonally adjusted index of employment in Pacific Coast manufacturing establishments was higher in 1937 than at any previous time, averaging 121 percent of the 1923-1925 base. At that level it was 6 percent above the average for 1929 although the index of payrolls remained 3 percent below the 1929 average. In the autumn of 1937, both employment and payrolls declined precipitously and considerable further decrease took place in the first half of 1938. These declines were followed by sharp gains last autumn, but in more recent months employment and payrolls have shown little net change. In June the index of employment was

108 compared with 100 a year earlier and 128 in June 1937, while the index of payrolls was 107 compared with 94 and 123 in the like months of the two preceding years.

From 1934 through mid-1937 factory employment and payrolls in the Pacific Coast states advanced more rapidly than in the United States as a whole. Local employment was 29 percent higher in 1937 than in 1935 compared with an increase of 16 percent in the entire United States, while increases in total wages were 49 and 38 percent respectively. After mid-1937, marked decreases in employment took place in both the United States and Pacific Coast states, the reductions in the two areas being of about equal proportions. In relation to earlier years, such as 1934 and 1935, current employment in local manufacturing is relatively higher than in the United States as a whole, owing to a more rapid growth of Pacific Coast industry during recent years.

The more rapid expansion on the Pacific Coast may be attributed to several factors. Population growth has been greater in Coast states as a group than in the country as a whole, resulting in greater stimulus to local industries engaged in producing consumer goods which are customarily manufactured in proximity to their markets, for example, bread and bakery products. Decentralization of industry, resulting in local establishment of a considerable number of branch plants of national firms, has been another factor tending to increase aggregate employment in Pacific Coast industry relative to the United States as a whole. Growth of the Pacific Coast as a center of operations for new industries, of which the aircraft industry is an outstanding example, has also contributed to the rise in employment in this region. Another influence contributing to the more rapid expansion in employment and payrolls in the Far West is the fact that several nationally important industries, such as footwear and cotton textiles, which employ large numbers of workers and in which the labor force has been relatively stable in recent years, are concentrated in the East.

#### AGRICULTURE

Farm cash income in the Twelfth District is estimated at \$470,500,000 during the first seven months of this year, compared with \$446,900,000 in the comparable months last season. More than half the gain in income reflects larger Federal Government benefit payments to farmers, which have totaled about \$32,000,000 this year, compared with \$17,000,000 received during corresponding months of 1938. Excluding Government payments, receipts from crops were 5 percent larger through July of this year, and returns from marketings of livestock and livestock products were 2 percent smaller. Prices have generally been below the depressed 1938 levels, and increases in gross receipts for crops sold have reflected a larger volume of marketings. Gains in total farm income varied considerably within the district. Receipts in Pacific Northwest states and in Utah were larger than in 1938, while income in Arizona, California, and Nevada was smaller than a year ago. Reduced receipts from cotton occasioned much of the decline in Arizona, and in Nevada lower returns have been received from marketings of all crops and of cattle and dairy products. In California gross income from cotton, citrus fruits, rice, strawberries, dairy products, and eggs was lower than in the first seven months of 1938.

Yields of grain, field, and fruit crops harvested during July exceeded earlier expectations and estimates of output were larger on August 1 than on July 1. Although yields are turning out to be higher than had been expected, crops generally will be smaller than in 1938 or 1937 because of reductions in acreage and because of drought conditions this season. Except for wheat, apples, prunes, and tame hay, however, output of all major and of most minor district crops will exceed the average for the ten years 1928-1937. Demands upon irrigation water have been heavier than usual this year to offset the light seasonal rainfall last winter and spring.

#### CROP PRODUCTION—TWELFTH DISTRICT (in thousands)

	Average 1928-37	1937	1938	Forecast Aug. 1, 1939
<b>Grains</b>				
Barley (bu.).....	40,634	41,555	41,288	47,644
Corn (bu.).....	7,690	7,951	6,928	7,110
Oats (bu.).....	26,227	27,939	23,214	31,285
Rye (bu.).....	742	1,035	937	870
Wheat (bu.).....	106,499	124,429	125,917	92,278
<b>Field Crops</b>				
Beans (bags).....	5,267	7,353	6,205	5,449
Cotton (bales).....	429	1,051	620	593
Flaxseed (bu.).....	515	660	684	1,760
Tame Hay (tons).....	11,620	12,445	11,782	11,213
Hops (pounds).....	34,079	44,399	35,261	39,060
Potatoes (bu.).....	50,573	66,293	65,203	65,029
Rice (bu.).....	7,827	9,100	9,100	8,300
Sugar Beets (tons).....	2,369	2,916	4,065	3,801
Sweet Potatoes (bu.).....	1,116	1,221	1,521	1,320
<b>Deciduous Fruits and Nuts</b>				
Almonds (tons).....	12	20	15	20
Apples (bu.).....	36,766	33,319	32,864	31,380
Apricots (tons).....	232	311	166	325
Cherries (tons).....	53	51	85	88
Grapes (tons).....	1,944	2,462	2,541	2,355
Wine*.....	466	631	641	569
Raisin*.....	1,123	1,407	1,443	1,386
Table*.....	345	416	447	390
Peaches (bu.).....	25,618	24,453	23,821	26,206
Clingstone*.....	14,764	15,407	13,042	15,043
Freestone*.....	7,692	7,734	7,459	8,792
Pears (bu.).....	16,950	18,616	22,704	20,456
Plums* (tons).....	62	66	63	64
Prunes† (fresh tons).....	150	95	134	202
Prunes* (dry tons).....	199	240	224	187
Walnuts (tons).....	42	60	51	60
<b>Citrus Fruits</b>				
Grapefruit (boxes).....	2,168	2,950	4,693	4,824
Lemons (boxes).....	7,487	8,102	9,360	10,686
Oranges (boxes).....	32,548	30,283	45,955	41,020
Valencias*.....	17,526	16,289	29,234	23,870
Navel and Misc.*.....	14,871	13,234	16,680	16,800

†Pacific Northwest—for canning, drying, and fresh consumption.  
\*California only.

Livestock growers have been more seriously affected by the subnormal precipitation since the first of the year than farmers and orchardists. Although mild weather last winter resulted in only small losses of stock, forage and water on pastures and ranges have been inadequate, and considerable supplemental feeding has been neces-

#### WOOL AND LAMB PRODUCTION—TWELFTH DISTRICT

	Wool Production			Lamb Production		
	1937	1938	Forecast 1939	1937	1938	1939
	(thousand pounds)			(thousand head)		
Arizona.....	5,050	5,040	4,853	471	477	480
California.....	25,962	28,237	28,933	2,008	2,849	2,630
Idaho.....	18,826	17,463	16,426	1,623	1,631	1,580
Nevada.....	5,878	5,920	6,192	509	511	550
Oregon.....	17,501	17,499	17,072	1,439	1,580	1,522
Utah.....	19,221	19,909	19,444	1,500	1,570	1,573
Washington.....	5,819	5,995	6,074	537	573	579
Twelfth District...	98,257	100,063	98,994	8,087	8,831	8,914
United States.....	366,609	371,972	375,699	30,730	32,157	31,867

sary. Livestock failed to make normal gains, and larger percentages of animals were marketed as feeder stock than in any recent year. Cattle prices have been well maintained and at present are slightly higher than a year ago. Heavy marketings of lambs in July were accom-

panied by some decline in quotations, but prices remain well above those received a year ago. In sharp contrast, hog prices are 30 percent lower than a year ago.

Returns to district sheep and lamb growers totaled \$77,490,000 in 1937. Income declined 27 percent to \$56,830,000 in 1938, influenced mainly by sharply lower wool prices and some decrease in lamb quotations. Growers' cash income this season is expected to be larger than in 1938, but below the 1937 level. Both the lamb crop and the wool clip are estimated to be about the same as in 1938, but prices of wool and lambs have been moderately higher than a year ago with a resulting increase in gross income. Growers' net income may not show the gains made in gross income, however, because of heavier supplemental feeding costs.

CREDIT

United States Government security holdings of the Federal Reserve Bank of San Francisco have been reduced in recent weeks, decreasing from \$216,215,000 on June 21 to \$195,198,000 on August 23. Approximately \$9,976,000 of the decrease resulted from reallocation at the midyear of Federal Reserve bank holdings of securities whereby the share of this bank was reduced. The remainder of the decline has come about through a reduction in total holdings of Treasury bills by the Reserve System, which resulted in some decrease in this bank's participation in the System's holdings. Despite this reduction in Federal Reserve credit, excess reserves of member banks in the Twelfth District and the United States as a whole have continued to increase.

Transactions in Government securities are not conducted independently by the several Federal Reserve banks but are handled by the Federal Open Market Committee for the account of the Reserve banks as a group. This Committee consists of the Board of Governors of the Federal Reserve System and five representatives of the Federal Reserve banks chosen from among the presidents of those banks. The Committee administers the System Open Market Account, which includes all Government securities owned by the Reserve banks.

Distribution and Trade—

Index numbers, 1923-1925 average=100	With Seasonal Adjustment (1939-1938)			Without Seasonal Adjustment (1939-1938)		
	July	June	July	July	June	July
<b>Retail Trade</b>						
Department store sales (value)*						
Twelfth District.....	98	97	95	81	88	81
California.....	98	98	95	81	87	83
Los Angeles.....	88	89	88	76	77	75
Bay Region.....	107	105	101	87	95	82
San Francisco.....	101	98	96	83	88	79
Oakland.....	125	125	117	99	112	93
Pacific Northwest.....	98	95	92	80	89	76
Portland.....	98	96	95	81	92	79
Seattle.....	100	98	89	82	89	73
Spokane.....	90	82	93	72	76	74
Salt Lake City.....	87	86	84	62	76	60
Department store stocks (value)†	62	63	64	59	60	61
Furniture store sales (value)*‡	76	76	73	70	73	68
Furniture store stocks (value)*‡	68	66	67	68	67	67
Automobile sales (number)*						
Total.....	—	—	—	96	112	74
Passenger.....	—	—	—	89	106	68
Commercial.....	—	—	—	162	171	144
<b>Carloadings (number)*</b>						
Total.....	83	83	75	85	90	77
Merchandise and misc.....	89	95	86	95	101	92
Other.....	76	68	63	72	76	59
<b>Intercoastal Traffic (volume)</b>						
Total.....	58	71	51	62	69	55
Eastbound.....	46	63	43	51	58	47
Westbound.....	97	101	80	99	105	81

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

The recent decrease in Federal Reserve holdings of securities, with its accompanying tendency to reduce member bank reserves, does not represent a change in general credit policy of the System. This policy for some years has been designed to make available an ample supply of reserve funds to the banks of the country, for their use in meeting credit demands. In explanation of the recent decline in Federal Reserve investments, the following statement authorized by the Federal Open Market Committee was released on June 30.

"As a result of a reduction in holdings of Treasury bills, this week's statement of condition of Federal Reserve banks shows a decline of \$13,378,000 in the System Open Market Account. This is in accordance with action taken by the Federal Open Market Committee on June 21, 1939. For some time past, Treasury bills have been purchased for the System's account at or near a no-yield basis and the account at times has had difficulty in replacing its maturing bills. It was decided that it would serve no useful purpose to continue full replacement of maturing bills, the supply of which is not always equal to the market demand. This action is in response to technical conditions in the bill market and does not represent a change in general credit policy."

The tendency of the recent decreases in security holdings of the Reserve banks to bring about a decline in member bank reserves has not meant, however, that reserves have shown an actual decrease in the period under review. As a matter of fact, reserve balances of member banks in the United States as a whole and in the Twelfth District have increased during this period, owing to the effects of gold imports and heavy Government cash disbursements in excess of collections. Thus, in the first half of August, district member banks had total reserve funds of about \$574,364,000, of which \$140,053,000 or 32.2 percent was in excess of legal requirements. In the first half of June, Twelfth District member banks had reserve balances of \$558,828,000, of which \$136,244,000 or 32.2 percent was in excess of legal requirements.

Production and Employment—

Index numbers, 1923-1925 average=100	With Seasonal Adjustment (1939-1938)			Without Seasonal Adjustment (1939-1938)		
	July	June	July	July	June	July
<b>Industrial Production*</b>						
Manufactures (physical volume)						
Lumber.....	86	83	66	92	95	71
Refined oils.....	—	—	—	162	164	157
Cement.....	..	110	106	..	126	116
Wheat flour.....	148	158	122	130	139	107
Minerals (physical volume)						
Petroleum.....	—	—	—	93	92	100
Lead (U. S.)†.....	68	70	54	65	71	52
Silver (U. S.)†.....	..	107	99	..	105	84
Construction (value)						
Residential Building Permits‡						
Twelfth District.....	49	57	50	48	59	48
Southern California.....	52	65	54	50	65	52
Northern California.....	43	46	40	39	47	36
Oregon.....	33	34	28	31	38	27
Washington.....	38	50	66	41	54	71
Intermountain states.....	104	53	59	115	83	65
Public works contracts.....	—	—	—	199	187	643
Miscellaneous						
Electric power production.....	202	208	184	225	223	205
<b>Factory Employment and Payrolls§</b>						
Employment						
Pacific Coast.....	..	108	99	..	110	100
California.....	121	121	111	122	121	111
Oregon.....	..	102	87	..	106	90
Washington.....	..	85	81	..	89	82
Payrolls						
Pacific Coast.....	..	107	91	..	110	91
California.....	118	120	105	116	122	104
Oregon.....	..	97	79	..	102	81
Washington.....	..	85	69	..	90	67

\*Daily average.  
 †Prepared by Board of Governors of Federal Reserve System.  
 ‡Includes figures from 197 cities and Los Angeles County, unincorporated.  
 §Revised series. Excludes fish, fruit, and vegetable canning.  
 Note: Index of meat production, usually published in this table, is in process of revision.

## Summary of National Business Conditions

Prepared by the Board of Governors of the Federal Reserve System

**I**N July industrial activity, seasonally adjusted, rose sharply and was close to the level reached last December. Prices of some industrial materials increased in recent weeks while those for agricultural products continued to decline.

### PRODUCTION

The Board's index of industrial production, according to preliminary returns, advanced to 102 percent of the 1923-1925 average in July as compared with 98 in June and 92 in April and May. The advance in July reflected chiefly a considerable further increase in output of iron and steel, which usually declines at this season. Steel ingot production rose from an average rate of 52 percent of capacity in June to 57 percent in July and in the first three weeks of August was maintained around 60 percent which for the month would represent about the usual seasonal increase. Lumber production showed little change in July, although a decline is usual.

In the automobile industry output showed a sharp seasonal curtailment during July and the first half of August, reflecting preparations for the shift to new model production which will be made about a month earlier this year than in other recent years.

Retail sales of new cars continued in excess of production and dealers' stocks were greatly reduced. Plate glass production declined sharply in July, following a substantial increase in June.

Changes in output of nondurable manufactures in July were largely of a seasonal nature. At cotton textile mills and meat-packing establishments activity showed somewhat less than the usual declines and at sugar refineries output increased from the low level reached in June. Flour production continued in substantial volume.

Mineral production expanded further in July as output of bituminous coal continued to increase and petroleum production, which had been reduced in June, rose sharply. On August 14 the Texas Railroad Commission ordered a shutdown of most Texas oil wells for 15 days, beginning August 15, and subsequently similar shutdowns were ordered in several other important oil producing states.

Value of construction contracts, as reported by the F. W. Dodge Corporation, increased somewhat in July, owing principally to a small rise in contracts for public projects. Awards for residential work, both public and private, were practically unchanged from the June total.

### EMPLOYMENT

Factory employment, which usually declines in July, was maintained this year at about the June level and payrolls showed a less than seasonal decrease, according to reports from a number of leading industrial states.

### DISTRIBUTION

Sales at department and variety stores in July showed about the customary seasonal decline. In the first half of August department store sales increased.

Freight-car loadings increased further from June to July. Loadings of coal continued to expand and shipments of miscellaneous freight, which usually decline at this season, showed little change.

### COMMODITY PRICES

Prices of most farm products and foods declined from the beginning of July to the middle of August. Some industrial materials, principally steel scrap, non-ferrous metals, and textile fabrics, showed advances in this period, while crude petroleum prices were reduced.

### AGRICULTURE

On August 1 prospects for major crops were about the same as a month earlier, according to the Department of Agriculture. The first official estimate on cotton indicated a crop of 11,400,000 bales, somewhat smaller than last year's crop and 2,400,000 bales less than the 1928-37 average. World carryover of American cotton, however, was estimated to have been somewhat larger on August 1 than the record volume of a year ago.

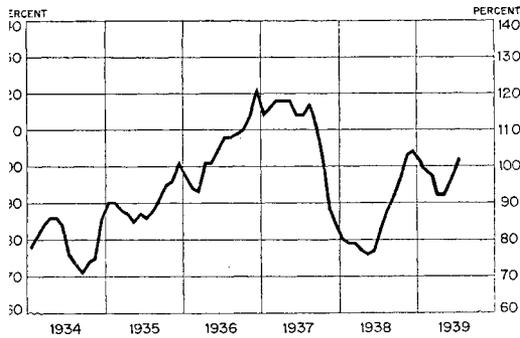
### BANK CREDIT

Total loans and investments of member banks in 101 leading cities increased substantially during the four weeks ending August 9, reflecting chiefly increases in holdings of United States Government obligations and the purchase by New York banks of a large share of a new issue of New York State short-term notes. Commercial loans continued to increase at New York banks but declined at banks in 100 other leading cities as corn and cotton loans that were approaching maturity were taken over by the Commodity Credit Corporation in accordance with a standing agreement. Deposits at reporting banks remain at high levels.

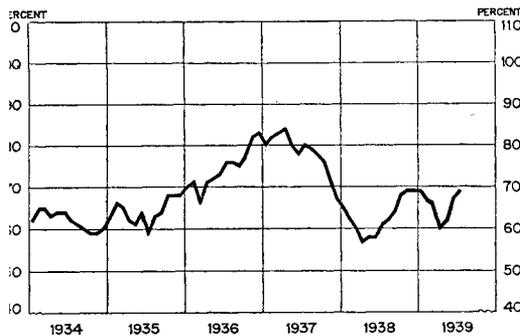
Excess reserves of member banks increased further to new high levels in the latter part of July and the first half of August, owing principally to gold imports and net Treasury disbursements, partly offset by a reduction in Federal Reserve Bank holdings of Treasury bills.

### MONEY RATES

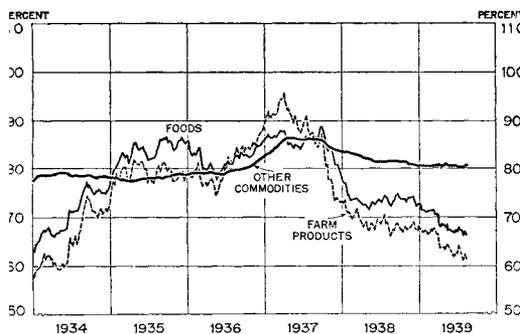
The average rate on new issues of 90-day Treasury bills has increased slightly in recent weeks and on August 16 was 0.032 percent. Prices of Treasury bonds showed little change from the middle of July to the middle of August.



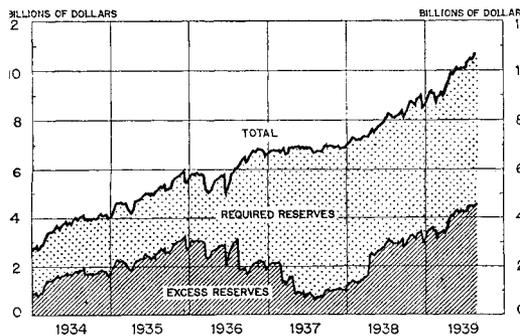
**INDUSTRIAL PRODUCTION**  
Index of physical volume of production, adjusted for seasonal variation, 1923-1925 average=100. By months, January 1934 to July 1939.



**FREIGHT-CAR LOADINGS**  
Index of total loadings of revenue freight, adjusted for seasonal variation, 1923-1925 average=100. By months, January 1934 to July 1939.



**WHOLESALE PRICES**  
Indexes compiled by the United States Bureau of Labor Statistics, 1926=100. By weeks, 1934 to week ending August 12, 1939.



**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 August 16, 1939.