

MONTHLY REVIEW

BUSINESS CONDITIONS IN THE TWELFTH FEDERAL RESERVE DISTRICT

Federal Reserve Bank of San Francisco

October 1, 1939

STABLE to mildly expanding economic activities in the Twelfth District during the summer months were given considerable stimulus by the outbreak of war in Europe at the beginning of September. The most obvious stimulus appeared in buying of securities and of raw, semi-manufactured, and finished goods, which resulted in sharp price advances in some instances. In a few industries this wave of buying prompted an increase in production, but in most lines current information indicates that production and employment had not been affected by mid-September. Some industries, notably motion picture production, were adversely affected by the war and operations are reported to have been reduced.

The spurt in buying of commodities in early September was participated in by consumers as well as manufacturers, processors, and distributors. Advances in prices of several important district farm products were considerable, and quotations on other raw materials produced in this region also moved higher. Purchases were mainly of domestic origin, although a few industries, for example paper and pulp, have also received large foreign orders from neutral countries cut off from their regular sources of supply by the war. Efforts by manufacturers, processors, and distributors to build up inventories in anticipation of price increases and of an enlarged volume of business partly explain the increased buying during the first half of September, but in some commodities sheer speculative trading was also a factor. Among the consuming public, fear of price increases and of shortages of certain items such as sugar, reminiscent of the World War period, induced mass buying of many staple non-perishable foodstuffs and other consumer goods. Later in the month, as realization extended that supply and other conditions affecting most commodities are now materially different than in 1914, market activity subsided and advances in prices of a number of raw materials ceased or were partly cancelled.

INDUSTRY

An unusually heavy domestic demand for staple foodstuffs produced in the Twelfth District developed immediately following the outbreak of war in Europe, and quotations for a considerable number of products were advanced. This increased demand resulting from the war followed a period of several weeks in which sales of canned goods had been relatively active, and in which period prices were firming, partly because of somewhat smaller packs this season. The rush of consumers after September 1 to stock up with canned foods, and efforts of distributors to meet this demand and to build up inventories in anticipation of further price advances, resulted in a huge volume of sales by canners early in the month. With the pack of nearly all canned foods completed for the year, recent heavy buying will not be reflected in much expansion of output this season.

Demand increased even more sharply for sugar than for canned foods, and sales by district refineries are reported to have been more active than at any time since the World War. Refined cane sugar prices were advanced from \$4.45 per 100 pounds on September 2 to \$5.75 on September 6. In late September, sugar was being sold for immediate delivery at \$5.50 per 100 pounds.

Demand for flour by domestic consumers likewise increased sharply in September and, in part reflecting higher wheat quotations, prices were advanced. From April through July, flour mills had been more active than at any time since 1919 owing to exceptionally heavy orders from the Orient. With the bulk of these orders filled, mills curtailed operations in August thereby making available idle capacity to meet domestic demand.

Among other lines to experience a marked increase in purchases early in September were the pulp and paper, steel, and nonferrous metals industries. During the first eight months of 1939 district pulp and paper mills were reported to be operating at only a slightly higher rate than in much of 1938, when little more than 50 percent of plant capacity was being used. During September, however, operations are reported to have expanded sharply. Large orders have been received from domestic sources and have been supplemented by orders from neutral countries. To some extent this increase reflects the closing of Scandinavian countries as a source of supply of pulp for markets on this side of the Atlantic.

Volume of orders received by district steel mills in the first half of September was unusually large. Buying is reported to have come from a wide range of consuming industries and trades. While some impetus is expected to be given local steel mill operations by the recently revived Pacific Coast shipbuilding industry, most of the heavy steel required will be produced at Eastern mills. Contracts for the construction of several additional cargo vessels were awarded in September to Pacific Coast firms by the Maritime Commission, bringing total awards since December 1938 to 23 ships having an aggregate value of about \$45,000,000. One of these ships was launched in September.

Reflecting heavy sales in late August and early September, copper prices were advanced from 10½ cents per pound on August 31 to 12 cents on September 5. Little copper is refined in the Twelfth District but more than 60 percent of United States production has been mined and smelted in the area during recent years. No marked revival in output, which had been at curtailed levels since early last year, had been reported through mid-September.

The aircraft industry received a relatively small volume of new orders in September, mostly domestic. When the war in Europe started on September 1, major Los Angeles plants were already engaged in filling large orders received from the allied powers last year and

earlier this year. In August the United States Army had placed contracts representing the major portion of purchases under the current expansion program. As a result all major Twelfth District plants now hold record or near-record backlogs of orders. Employment and payrolls in the industry continue at the record level attained during the summer, far above the highest levels of prior years. Two plants have announced that their production facilities will be expanded shortly.

Although the Neutrality Act of 1937 at present prevents the shipment of the large portion of the French, English, and Australian orders which remains unfilled, manufacturers have continued to produce the planes contracted for.

The war abroad is reported to have affected the motion picture industry adversely. Some curtailment in the exhibition of motion pictures in countries engaged in the war has been reported. This is expected to reduce receipts of producers in this country, since about 30 percent of the industry's gross income in recent years has been received from foreign exhibition, principally in English-speaking countries.

Through mid-September, the outbreak of the war and its aftermath appears to have had little effect upon the district automobile, rubber tire, and furniture industries. Assembly of new model automobiles had started by mid-September in several district plants, but the new season is not sufficiently advanced to indicate what the probable sales of new cars and trucks may be this fall and winter. Rubber tire and tube output was increased in August to supply original equipment for the new cars. Since early in 1938 operations at district furniture plants have been closely geared to retail furniture sales which, in turn, have displayed little net change during the past year. Manufacturers report that through mid-September the factors contributing to widespread buying in many other lines had not contributed significantly to demand for furniture.

The well sustained advance in new lumber orders since early in March continued through August and the first three weeks of September. Reports from the trade indicate that actual volume of building, particularly in the residential field, has been the principal source of advancing mill sales. Exports account for considerably less than 10 percent of district lumber output, and of that amount less than a quarter is shipped to Europe. Since September 1, some difficulty is reported to have been experienced in obtaining cargo space for foreign shipments, owing to the withdrawal from operation of ships under registry of belligerent and neutral nations.

Reflecting moderate inventories, strong current demand, and a comparatively large volume of orders on hand, mill prices in the Douglas fir area have strengthened in recent months. In the western pine area, however, prices have tended to decline and currently are lower than at any time last year. The construction industry takes a larger proportion of Douglas fir output than of the western pine cut; as a result, the substantial gains in new residential building since early in 1938 have been more effective in strengthening the market position of mills in the fir area.

Local demand for fuel oil, used largely by railroads, ships, and industry, had shown a generally declining tendency since the end of last year, but turned up sharply in

August, establishing a record for 1939. Shipments to points outside the district likewise increased sharply in August, and stocks of heavy oils declined by a million and a half barrels, thus returning to the level of a year earlier. No orders from belligerents for petroleum products, directly traceable to the war, have been reported. Wholesale prices of petroleum products have declined this year and in general are lower than a year ago.

BUILDING CONSTRUCTION

After receding moderately in July, value of permits issued for new dwellings advanced sharply in August, although little change has been customary between those months in past years. The August upturn was attributable partly to termination of a lumber mill and yard strike in Los Angeles County, where most of the increased activity was reported. An additional factor contributing to the higher total was issuance of a \$1,600,000 permit for construction of the Carmelitos housing project, to be erected by the United States Housing Authority in Los Angeles County. Elsewhere in the district new residential building was well maintained in August at rates generally higher than those reported earlier in the year. Preliminary data for September indicate a considerable decrease in the seasonally adjusted index of residential building from the high August level.

TRADE

Since March, small but continuous gains in retail trade have been reported. After allowance for seasonal influences, retail trade in lines for which data are available is estimated to have totaled about 4 percent higher in August than in March and about 7 percent higher than a year earlier. Most of the increase took place in automo-

Production and Employment—

Index numbers, 1923-1925 average=100	With Seasonal Adjustment			Without Seasonal Adjustment		
	1939 Aug.	1938 July	1938 Aug.	1939 Aug.	1938 July	1938 Aug.
Industrial Production*						
Manufactures (physical volume)						
Lumber	83	86	72	98	91	85
Refined oils	—	—	—	155	154	156
Cement .....	..	102	92	..	112	102
Wheat flour	121	150	112	121	132	112
Minerals (physical volume)						
Petroleum	—	—	—	92	92	101
Lead (U. S.)†	71	68	46	68	65	44
Silver (U. S.)† .....	..	70	105	..	59	104
Construction (value)						
Residential Building Permits‡						
Twelfth District	57	49	50	57	47	50
Southern California	68	51	56	67	50	55
Northern California	43	43	47	42	39	46
Oregon	36	36	30	36	34	30
Washington	38	37	27	44	40	31
Intermountain states	70	99	53	79	109	60
Public works contracts	—	—	—	263	199	332
Miscellaneous						
Electric power production	209	203	196	229	227	216
Factory Employment and Payrolls§						
Employment						
Pacific Coast .....	..	109	99	..	110	103
California	120	121	111	124	122	115
Oregon .....	..	101	89	..	105	95
Washington .....	..	88	82	..	89	84
Payrolls						
Pacific Coast .....	..	104	95	..	103	100
California	121	118	106	126	116	111
Oregon .....	..	89	88	..	91	98
Washington .....	..	81	76	..	80	80

*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.

bile and restaurant sales. Preliminary data for September indicate that department store sales in that month increased by somewhat less than the usual amount, owing partly to the severe reduction in sales of stores in California because of unprecedented hot weather in the week ending September 23.

AGRICULTURE

The outbreak of war in Europe on September 1 stimulated widespread buying of staple farm products grown in the Twelfth District and resulted in sharp advances in prices. Growers had already disposed of part of their output this season, but some of the advance in prices will be reflected in increased farm income. By mid-September, market activity had decreased considerably, and a number of prices declined somewhat, although late in the month they were still well above the levels prevailing earlier in the year. Some of the changes in prices of important farm products during recent weeks are shown in the following table.

WHOLESALE COMMODITY PRICES—REPRESENTATIVE QUOTATIONS AT TWELFTH DISTRICT MARKETS ON SELECTED DATES

	1939				1937
	Mid-Aug.	End of Aug.	Mid-Sept.	Late Sept.	Mid-Sept.
Wheat, San Francisco (cwt.)..	\$1.33	\$1.43	\$1.76	\$1.65	\$1.60
Barley, San Francisco (cwt.)..	.88	.90	1.18	1.08	1.43
Oats, San Francisco (cwt.)....	1.38	1.25	1.40	1.38	1.88
Corn, California (cwt.).....	1.30	1.32	1.70	1.39	2.10
Beans, California (cwt.).....	3.64	3.63	4.90	4.88	4.32
Hops, California (lb.).....	.23	.25	.30	.40	.15
Rice, California (cwt.).....	1.34	1.34	1.41	1.53	1.25
Sugar, California (cwt.).....	4.45	4.45	5.75	5.50	5.00
Apricots, dried, California (lb.)	.11	.12	.14	.13	.12
Peaches, dried, California (lb.)	.05	.06	.08	.07	.06
Prunes, dried, California (lb.)	.02	.02	.03	.03	.02
Cattle, San Francisco (cwt.)..	7.40	7.50	7.90	7.90	8.00
Lambs, San Francisco (cwt.)..	7.40	7.40	8.50	8.25	9.25
Hogs, San Francisco (cwt.)....	6.80	7.40	8.55	7.30	11.00
Butter, San Francisco (lb.)....	.27	.28	.30	.32	.36
Eggs, San Francisco (doz.)....	.25	.29	.33	.28	.35

Domestically, the supply of practically all important food crops is about the same as the average of recent years or larger. In the Twelfth District, drought conditions last spring and summer were unfavorable for growing crops, but aggregate output of the season is now

estimated to be almost as large as in the near-record years of 1937 and 1938. As harvesting of grain and field crops progressed during August and September, yields were higher than had been anticipated earlier in the summer.

CREDIT

Loans for commercial and industrial purposes reported by district city banks advanced sharply in the first three weeks of September, after remaining practically unchanged in July and August at the low levels to which they had declined during the first half of the year. Expansion in loans of this type is customary in the early fall, but this year the increase has been of more than seasonal proportions. Gains have been widespread, being reported by banks in all the principal cities. The sharper than customary expansion reflects to a considerable extent an enlarged demand for credit occasioned by the sudden upsurge in buying by manufacturers, processors, and distributors, frequently at rising prices, immediately following the outbreak of war in Europe.

Loans to brokers and dealers in securities have shown little change in recent weeks, despite the markedly greater volume of trading in securities at substantially advanced prices since the end of August.

Since the outbreak of war, banks in the district's principal cities have reduced their investments moderately. Holdings of non-Government securities at banks for which current information is available decreased about 4 percent, or \$19,000,000; while holdings of Federal Government obligations decreased somewhat less than 1 percent, or \$12,000,000.

Holdings of Government securities by the Federal Reserve Bank of San Francisco increased moderately in the last week of August and were subsequently increased sharply from \$195,468,000 on August 30 to \$226,756,000 on September 20. The recent large acquisitions of Government securities by the Federal Reserve Bank of San Francisco represented the share of that bank in the total net purchases made by the Federal Open Market Committee for the Federal Reserve System as a whole. These purchases were made at a time when the market for Government securities, which are held in substantial amounts by member banks, was threatened with disorderly liquidation growing out of the war crisis.

The Federal Reserve Act permits Federal Reserve banks to make advances to any individual, partnership, or corporation on notes secured by direct obligations of the United States for periods not exceeding 90 days. The rate of interest on advances under this provision to member and nonmember banks was reduced in September by the Federal Reserve Bank of San Francisco to 1½ percent from 4 percent. The discount rate on advances to member banks secured by eligible commercial paper or by direct and certain specified guaranteed obligations of the United States was left unchanged at 1½ percent, at which level it has stood since September 3, 1937. As a result, nonmember banks may now obtain advances from the Reserve Bank, when secured by direct obligations of the United States, at the same rate as that which applies to member banks. Advances will be made to both member and nonmember banks up to the par value of the securities. Borrowing at the Reserve Bank throughout September continued at the extremely low levels of recent years.

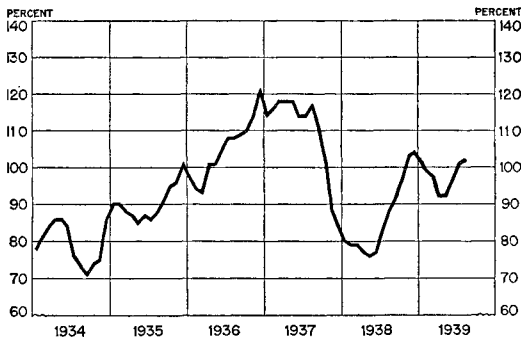
Distribution and Trade—

Index numbers, 1923-1925 average=100	With Seasonal Adjustment (1939)			Without Seasonal Adjustment (1938)		
	Aug.	July	Aug.	Aug.	July	Aug.
Retail Trade						
Department store sales (value)*						
Twelfth District	98	99r	97	94	81	92
California	99	98	97	96	81	95
Los Angeles	88	88	90	88	76	90
Bay Region	108	107	103	105	87	100
San Francisco	101	101	98	97	83	94
Oakland	128	125	120	129	99	121
Pacific Northwest	100	98	97	94	81r	90
Portland	105	98	103	97	81	95
Seattle	99	100	93	93	82	87
Spokane	91	96r	90	86	77r	84
Salt Lake City	91	87	90	72	62	71
Department store stocks (value)†	62	62	65	60	59	63
Furniture store sales (value)*‡	75	76	76	78	70	78
Furniture store stocks (value)‡‡	69	68	67	67	68	65
Automobile sales (number)*						
Total	—	—	—	91	96	69
Passenger	—	—	—	83	89	61
Commercial	—	—	—	180	165	149
Carloadings (number)*						
Total	83	82	79	96	84	91
Merchandise and misc.	94	87	90	105	93	101
Other	70	76	65	85	72	79
Intercoastal Traffic (volume)						
Total	71	58	55	74	62	58
Eastbound	59	46	45	63	51	48
Westbound	109	97	89	111	99	91

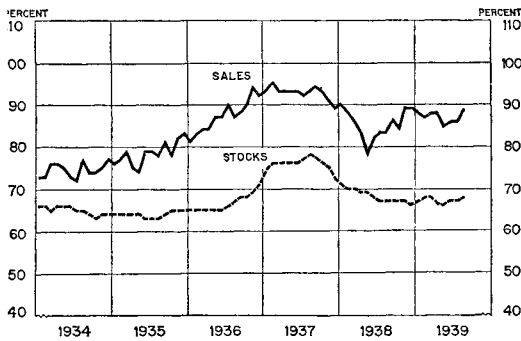
*Daily average. †At end of month. ‡1929 average=100. rRevised.

Summary of National Business Conditions

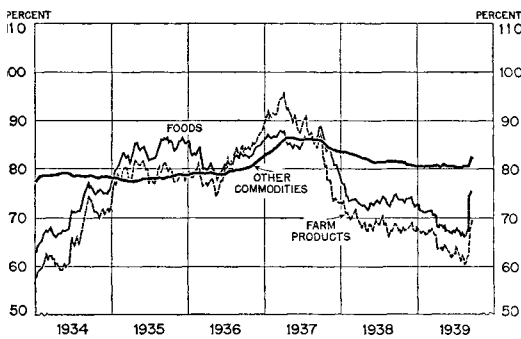
Prepared by the Board of Governors of the Federal Reserve System



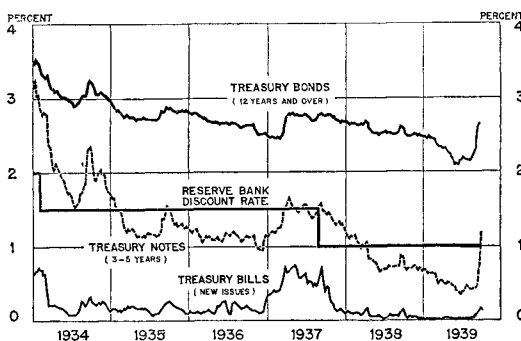
INDUSTRIAL PRODUCTION
Index of physical volume of production, adjusted for seasonal variation, 1923-1925 average=100. By months, January 1934 to August 1939.



DEPARTMENT STORE SALES AND STOCKS
Indexes of value of sales and stocks, adjusted for seasonal variation, 1923-1925 average=100. By months, January 1934 to August 1939.



WHOLESALE PRICES
Indexes compiled by the United States Bureau of Labor Statistics, 1926=100. By weeks, 1934 to week ending September 9, 1939.



MONEY RATES IN NEW YORK CITY
For weeks ending January 6, 1934 to September 16, 1939.

INDUSTRIAL activity, which had increased substantially during the summer, showed a sharp advance in the first half of September after the outbreak of war in Europe. Prices of basic commodities and equity securities rose sharply, while prices of high-grade bonds declined.

PRODUCTION

In August, the Board's seasonally adjusted index of industrial production was at 102 percent of the 1923-1925 average as compared with 101 percent reached in July. Volume of manufacturing production increased further, but mineral production declined, owing to a temporary curtailment in output of crude petroleum. In the iron and steel industry, output increased somewhat further in August and rose sharply in the first half of September, steel ingot production reaching a rate of 70 percent of capacity in the week ending September 16 as compared with about 63 percent at the beginning of the month. Automobile production showed about the usual sharp seasonal changes in this period as the shift to new model production was being made. Output of plate glass increased sharply. Production of non-durable manufactures advanced in August, reflecting chiefly increased activity at cotton and woolen textile mills. At meat-packing establishments activity declined less than seasonally, while at flour mills, where output has been at a high rate in recent months, there was not the usual large seasonal increase. Shoe production advanced seasonally. At coal mines, output increased by about the usual seasonal amount and shipments of iron ore were at the highest rate of this season. Petroleum production declined sharply during the latter half of August, reflecting shutdowns of wells in most of the principal oil producing states, but increased rapidly in the first half of September when the wells were reopened.

Value of construction contracts, as reported by the F. W. Dodge Corporation, increased somewhat in August, owing to larger awards for publicly-financed projects, including several large dams and an increased volume of United States Housing Administration projects. Private residential building showed little change, although there is usually some seasonal decline. Other private construction, which in July had been the highest for any month in two years, declined in August.

DISTRIBUTION

Department store sales increased more than seasonally from July to August. The Board's adjusted index advanced from 86 to 89 percent of the 1923-1925 average and was at about the level reached in the latter part of last year. Sales at variety stores showed little change in August.

Freight-car loadings rose somewhat further in August, reflecting chiefly continued increases in shipments of coal and miscellaneous freight.

COMMODITY PRICES

Prices of most basic foodstuffs and industrial materials advanced sharply in the first half of September. Prices of wheat, corn, sugar, cocoa, and vegetable oils as well as of hides, rubber, wool, zinc, and tin showed the largest increases. The general level of wholesale commodity prices as measured by the Bureau of Labor Statistics index rose 3.1 points and in the week ending September 9 was at 78.4 percent of the 1926 average, about the same level as a year ago.

AGRICULTURE

Crop prospects showed some improvement on September 1 over a month earlier, according to the Department of Agriculture, indications are that production of all leading crops except cotton will be average or above average in volume. A cotton crop of 12,380,000 bales, about 10 percent below the 1928-1937 average, is forecast. This compares with a crop of 11,940,000 bales in 1938 and an estimated world consumption of 11,265,000 bales of American cotton during the past season.

GOVERNMENT SECURITY MARKET

Average yields on long-term Treasury bonds, which had advanced fractionally since last June, increased sharply by about $\frac{1}{2}$ of 1 percent in the latter half of August and early September. In pursuance of the System's policy of endeavoring to maintain orderly conditions in the money market, the Federal Reserve banks during the first half of September increased their holdings of Government securities by about \$400,000,000. On September 1 the Board of Governors of the Federal Reserve System announced that the Federal Reserve banks are prepared at this time to make advances on Government obligations to member and nonmember banks at par and at the same rate of discount.

BANK CREDIT

Total investments held by reporting member banks in 101 leading cities declined during the first half of September. At New York City banks the decline represented the redemption at maturity of Federal Farm Mortgage Corporation bonds and at banks in other leading cities it represented the sale of Treasury bills and bonds. Commercial loans of city banks showed a substantial growth during August and the first half of September.