

MONTHLY REVIEW

BUSINESS CONDITIONS IN THE TWELFTH FEDERAL RESERVE DISTRICT

Federal Reserve Bank of San Francisco

December 1, 1939

WHILE the widespread wave of buying prompted by the outbreak of the war has subsided, it has left a generally higher rate of industrial operations and a considerably higher level of employment and payrolls than had prevailed in the Twelfth District at any time since the autumn of 1937. New residential construction undertaken in the district, which had declined moderately in September, recovered in October to the levels prevailing in earlier months of the year. Despite the increase in consumer incomes accompanying the expansion in industrial operations and despite somewhat higher prices of a number of consumer goods, available measures indicate that the value of retail trade in October was but little if any higher than in the late summer months. Exports of district products have not expanded on a broad basis, although foreign sales of pulp and paper have increased sharply since August and additional orders have been received from foreign governments for military aircraft.

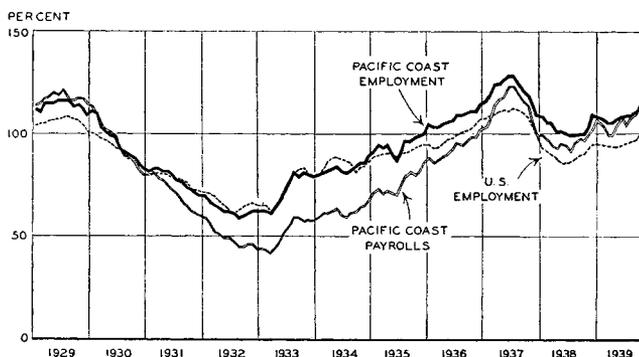
INDUSTRY

Industrial production in the district has responded to the increased orders booked since the outbreak of the war, particularly during September and the first half of October, but the expansion has been less marked than in the country as a whole. This more moderate gain largely reflects the fact that the durable goods industries in which the largest increases have taken place and which have accounted for most of the expansion in output in both the country as a whole and in this district, are relatively less important in the Twelfth District than elsewhere in the United States.

Output of lumber, which had advanced from 69 percent of the 1923-1925 average in March to 83 in August on a seasonally adjusted basis, rose further to 91 in October. This industry experienced a marked advance in orders during September to the highest levels in nearly a decade, the increase coming entirely from domestic sources. New business received by mills declined sharply in October, however, and the volume reported in early November was about comparable to the rather low levels last February. Operations in the comparatively small local steel industry expanded further in October, ingot production approaching the level of the late summer of 1937 when mills were producing substantially at capacity. Unfilled orders for steel are reported to be sufficient to maintain operations at the rate current in late October for the remainder of the year at least. District steel fabricators likewise expanded their operations in September and October and are reported to have a substantial volume of work on order. Copper mining and smelting, particularly important in Arizona, Nevada, and Utah, also has increased since August. Pressed by a large backlog of orders, activity at local aircraft plants expanded further in October. The expansion of recent months has been

brought about both by additions to plant facilities and by more intensive utilization of existing plant. Currently, several major district firms are engaged in construction programs which will result in a still further substantial increase in the aircraft industry's capacity.

In the nondurable industries group, the gain in production during September and October has been moderate. Of the lines for which information is available, only production of pulp and paper has shown a marked expansion. The increase was prompted and has been maintained by a sharp rise in orders from both foreign and domestic sources, largely reflecting the interruption by the war of customary deliveries from foreign countries. In the petroleum industry, burdened with heavy stocks for months, crude oil output was unchanged, but refinery operations increased moderately in both September and October. Of



FACTORY EMPLOYMENT AND PAYROLLS

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

the major district food industries, flour production declined in both September and October. Cane sugar production also declined, but the reduction appears to have been somewhat less than seasonal. Meat packing was affected by a strike of employees at several plants in September, but during October activity regained the levels of the past summer. The canning season for fruits, vegetables, and salmon had practically closed at the end of August with the result that war-inspired buying had practically no effect upon output of those products. Sales of the principal canned foods, of dried fruits, and of flour were dull in late October and early November following the unusually active markets in September.

EMPLOYMENT AND PAYROLLS

Reflecting the expansion in industrial operations, factory employment and payrolls in Pacific Coast states increased substantially in October to the highest levels in almost two years. The seasonally adjusted index of pay-

rolls in California, at 129 percent of the 1923-1925 average, was practically as high as the record peak of 131 in July 1937. For the Pacific Northwest, however, the adjusted index was 17 percent below the high level attained in June 1937. Payrolls have increased considerably more than employment in recent months, largely reflecting the fact that labor requirements in factories have been met by extending the work week as well as by employing additional workers.

BUILDING

Value of residential building permits issued in Twelfth District towns and cities increased in October, although a decline is customary in that month, and the seasonally adjusted index advanced to about the average of the first eight months of the year. Preliminary data indicate a further advance in the index for November. Value of contracts awarded for private commercial and industrial building increased sharply in October to about \$7,000,000. In September they approximated \$3,000,000 and averaged about \$2,500,000 during the first nine months of the year. Among the large single awards were contracts of \$1,000,000 for the rehabilitation of a shipyard in Washington, and of \$940,000 for a store building in Seattle. A \$1,250,000 program for the rehabilitation and modernization of a steel mill in California was also announced.

TRADE

Judging from available information, retail trade in the Twelfth District was maintained at little more than the levels of the past summer months in September and October, seasonal influences considered. Value of department store sales, adjusted for seasonal variations, was about the same in October as in July and August. Sales of apparel stores were slightly lower in October than in the summer months, while furniture store sales recorded a moderate gain. A sharp increase in sales of independent grocery stores in September was approximately offset by a reduction in the following month. Registrations of new automobiles increased much more sharply in October than has been the case in recent years, but the change may reflect the earlier resumption of mass production of new model cars this season than in other recent years.

Changes in inventories held by distributors in lines for which information is available have been slight in recent months. Among district wholesalers, only dealers in groceries and foods report any considerable expansion in stocks in September and October. In other lines changes, other than those of a seasonal character, have been negligible. Inventories of department stores in the district were considerably larger at the end of October than two months earlier but the increase has been no greater than is customary at this time of year.

AGRICULTURE

Although there was a spurt in domestic buying of several important agricultural products of this district during September, foreign purchases of such crops as wheat, apples, pears, and dried fruits have been curtailed since the outbreak of war. The net effect of recent developments, however, has been a moderately higher level of prices for agricultural products, even though total marketings appear to have increased less than is usual in September and October. Farm income has risen by about the

customary sharp seasonal amount and, including larger Federal Government benefit payments, is at the same level as a year ago.

Increases in domestic demand for agricultural products should result over the next few months from the expansion in industrial activity and in consumer incomes, but it is not now apparent whether such increases will fully offset the curtailment in exports of several crops.

Extremely dry weather in much of California, Nevada, and Arizona and less than normal rain and snow in most other sections of the district during recent months have affected prospects for 1940 crop production unfavorably. The 1938-1939 season was one of deficient precipitation and, with the water table lowered and the snowpack in the higher elevations somewhat reduced, a second consecutive year of subnormal rain and snowfall may be expected to reduce crop yields and impair ranges.

The citrus fruit marketing year ending October 31, 1939, like the preceding year, was one of relatively low returns for growers in Arizona and California. Income for the year just closed was estimated to be about \$77,530,000, compared with \$83,000,000 returned to growers in the 1937-38 season. Total shipments were 84,586 carloads of packed fruit made up of 62,660 cars of oranges, 18,375 cars of lemons, and 3,551 cars of grapefruit. In addition, around 11,500 cars of citrus were sold as loose fruit, indicating a total citrus movement for consumption as fresh fruit of 96,086 cars. Movement during the 1937-38 season was 107,330 cars. Prices received by growers for their fruit, although low, averaged slightly above those of the previous year. In Florida, Texas, and other important citrus growing areas outside this district, the crop was extremely large, offsetting declines in market supplies of fruit shipped from this dis-

Production and Employment—

Index numbers, 1923-1925 average=100	With Seasonal Adjustment		Without Seasonal Adjustment			
	1939*	1938	1939	1938	1938	
	Oct.	Sept.	Oct.	Sept.	Oct.	
Industrial Production*						
Manufactures (physical volume)						
Lumber	91	87	77	97	98	82
Refined oils	—	—	—	169	168	166
Cement	107	113	90	124	120	103
Wheat flour	97	118	96	116	140	114
Minerals (physical volume)						
Petroleum	—	—	—	93	93	100
Lead (U. S.) †	70	71	50	72	67	52
Silver (U. S.) †	104	102	..	98	101
Construction (value)						
Residential Building Permits ‡						
Twelfth District	51	43	49	51	47	50
Southern California	50	45	55	53	49	57
Northern California	46	38	42	45	41	41
Oregon	43	25	20	45	30	21
Washington	56	42	40	47	45	33
Intermountain states	98	58	80	100	77	81
Public works contracts	—	—	—	267	142	279
Miscellaneous						
Electric power production	216	214	198	216	224	197
Factory Employment and Payrolls §						
Employment						
Pacific Coast	113	110	100	118	116	104
California	125	121	111	132	127	117
Oregon	102	104	89	106	112	92
Washington	93	90	83	97	95	86
Payrolls						
Pacific Coast	115	108	96	121	113	102
California	129	123	109	135	125	114
Oregon	102	95	86	109	106	92
Washington	92	84	76	99	89	81

*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.

district during the past season. Total United States production for the 1938-39 season was of record proportions, totaling 292,300 carloads (135,057,000 boxes), compared with 249,400 carloads (115,238,000 boxes) in the previous season.

In contrast with the unfavorable citrus fruit year, income to deciduous fruit growers throughout the district has been somewhat higher in 1939 than in 1938. Production, in general, was about the same as a year ago, while prices of most varieties were higher. With the carryover of canned fruits smaller than the record high levels on hand at the beginning of the 1938 season, packs of canned fruits generally were larger than a year ago and better prices were paid growers by the canners.

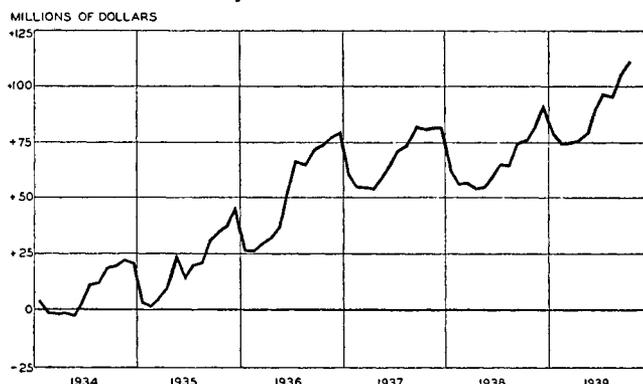
CREDIT AND BANKING

The expansion in loans for commercial, industrial, and agricultural purposes which was a feature of the weekly reports of condition of district city banks in September was checked in October, but a slight further expansion took place in mid-November. On November 22, loans of this class totaled \$322,000,000, compared with \$301,000,000 on August 30, the low point for recent months. The total was considerably lower than a year ago, however, when outstanding business loans amounted to \$337,000,000. This year period decline was accounted for entirely by banks in San Francisco, small increases occurring in Los Angeles, Seattle, and Salt Lake City with little change in other reporting cities. Holdings of open market paper and loans to brokers and others to finance the purchase and carrying of securities have remained about unchanged in recent weeks, and have been at levels close to those of mid-November 1938. Loans on real estate increased slightly in late October and the first half of November after having tended slightly lower in the preceding two months.

Aggregate reserves of district member banks on deposit with the Federal Reserve Bank of San Francisco, which had risen to a peak of \$636,000,000 on October 18, fluctuated slightly lower in the succeeding five weeks to \$622,600,000 on November 22. On a daily basis, excess reserves in the first half of November averaged \$171,500,000, about 38 percent above requirements.

Although district member bank reserves declined slightly in the past five weeks they were \$66,900,000 larger on November 22 than on June 30. In keeping with the customary relationship in recent years, United States Treasury disbursements in the district during the past five months have been substantially larger than local collections and have contributed directly to the sharp expansion in local bank reserves. These net expenditures, which in the like period of 1938 amounted to \$102,000,000, totaled \$133,000,000 from June 30 to November 22 of this year. The corresponding increase in member bank reserve balances was partly offset, however, by other factors. Among those factors was a net outflow of \$43,000,000 in commercial and financial payments to other districts, and an increase of \$20,000,000 in district demand for currency.

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DEMAND FOR CURRENCY—Twelfth District
Monthly average figures, cumulative from January 1934.

Demand for currency in the Twelfth District has increased considerably since the seasonally low levels reported in the late winter. Following a rise from those levels of somewhat more than customary proportions during the spring and summer months, expansion since August has been particularly marked. This gain was partly seasonal in character reflecting larger cash requirements occasioned by seasonal expansion in retail trade, in industrial, commercial, and agricultural payrolls, and the like. The revival in business volumes and the moderate increase in prices of a number of goods this year may have accentuated the usual seasonal increase in demand for currency. In addition, uncertainties regarding the effect of possible approval by California voters of the Retirement Life Payments initiative measure in the special election of November 7 may have induced some withdrawal of bank deposits in the form of currency. These withdrawals were particularly heavy immediately prior to the election date. Despite the return of currency and coin from circulation immediately following the close of the Golden Gate International Exposition on October 29, aggregate district demand for currency increased \$21,400,000 from October 28 to November 8. In the subsequent week a substantial return of currency from circulation took place amounting to slightly less than \$12,000,000.

Distribution and Trade—

Index numbers, 1923-1925 average=100	With Seasonal Adjustment			Without Seasonal Adjustment		
	1939	1939	1938	1939	1939	1938
	Oct.	Sept.	Oct.	Oct.	Sept.	Oct.
Retail Trade						
Department store sales (value)*						
Twelfth District.....	99	95	93	102	98	97
California.....	98	91	92	98	91	93
Los Angeles.....	88	79	94	92	80	97
Bay Region.....	106	103	83	101	101	82
San Francisco.....	99	96	64	96	96	62
Oakland.....	124	124	130	125	116	132
Pacific Northwest.....	99	100	92	110	113	103
Portland.....	98	103	91	105	115	98
Seattle.....	101	101	94	105	115	98
Spokane.....	96	90	90	137	104	129
Salt Lake City.....	95	89	101	102	95	108
Department store stocks (value)†	61	63	62	67	64	68
Furniture store sales (value)*†	80	77	76	83	82	79
Furniture store stocks (value)††	72	72	67	73	71	69
Automobile sales (number)*						
Total.....	—	—	—	99	76	66
Passenger.....	—	—	—	96	69	63
Commercial.....	—	—	—	128	144	95
Carloadings (number)*						
Total.....	88	86	83	104	100	97
Merchandise and misc.....	98	98	92	119	116	112
Other.....	76	72	69	85	80	78
Intercoastal Traffic (volume)						
Total.....	72	78	60	80	80	66
Eastbound.....	66	66	49	75	68	56
Westbound.....	91	117	95	94	118	99

*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

RAPID expansion of industrial output continued in October, and employment and payrolls increased considerably. Distribution of commodities to consumers, which had increased in September, was maintained at the higher level in October. In the first half of November industrial activity increased further but, with production in many industries approaching capacity, the advance was less rapid than in earlier months. Commodity prices generally showed little change during October and the first half of November, following the sharp rise in September.

PRODUCTION

Volume of industrial production showed a further sharp rise in October and the Board's seasonally adjusted index advanced from 111 to 120 percent of the 1923-1925 average. Marked increases in activity were reported in the steel and steel-consuming industries and at mines. In the steel industry ingot production in October was at a rate of 90 percent of capacity and actual volume of output was the greatest for any month on record. Some further increase in the rate of output was reported in the first half of November. Pig iron production also advanced sharply and lake shipments of iron ore, which had increased considerably in September, continued in exceptionally large volume. Activity in the machinery and ship-building industries and in most other steel-consuming lines rose in October but by a considerably smaller amount than output of steel. In the automobile industry, however, output showed less than the marked rise usual at this season. This was due to the fact that plants of one large producer were closed during most of the month by an industrial dispute. Mineral production in October was at record levels owing chiefly to a high rate of crude petroleum output.

In the nondurable goods industries activity was generally maintained at the high levels reached in August and September. Flour production declined sharply, however, following an exceptionally large volume of output in September.

Value of construction contracts, as reported by the F. W. Dodge Corporation, decreased considerably in October, reflecting principally a reduction in awards for public construction. Private residential contracts continued in substantial volume while awards for commercial and industrial building declined somewhat following increases in the previous month.

EMPLOYMENT

Reports from leading industrial states indicate that factory employment and payrolls increased sharply between the middle of September and the middle of October. Increases were particularly large at steel mills and in related industries. There was also a considerable increase in employment on the railroads in October.

DISTRIBUTION

Retail distribution of general merchandise in October showed about the usual seasonal rise from the advanced September level. In the early part of November department store sales increased considerably.

Freight-car loadings rose further from September to October, reflecting a large increase in shipments of miscellaneous freight, which includes most manufactured products, and smaller increases in loadings of coal, forest products, and ore.

COMMODITY PRICES

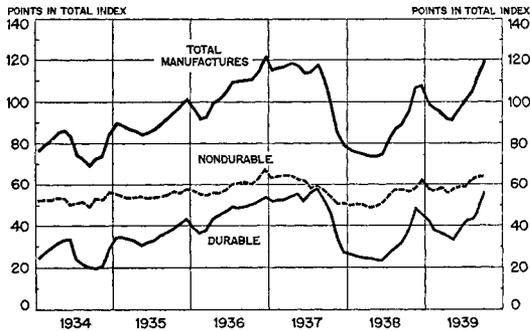
Price changes that have occurred since the general sharp rise in September have reflected largely particular developments in individual commodities. From the middle of October to the middle of November prices of a number of food-stuffs continued to decline and there were also decreases in some industrial materials, such as print cloths, wool, tin, and steel scrap. Wheat, cotton, and burlap advanced somewhat while prices of most other commodities, including finished industrial products, showed little change.

GOVERNMENT SECURITY PRICES

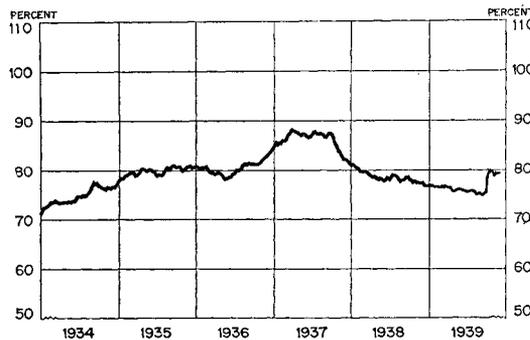
Following a sharp recovery from the low of September 21, prices of United States Government bonds showed irregular changes during the period from October 24 through the first half of November. On November 15 yields on long-term Treasury bonds were 2.47 percent as compared with 2.79 percent on September 21.

BANK CREDIT

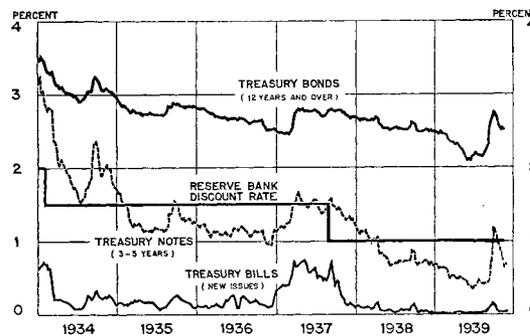
Total loans and investments at reporting member banks in 101 leading cities increased substantially during the six weeks ending November 8, reflecting largely purchases of Treasury bills by New York City banks. Commercial loans continued to show moderate increases. Deposits at these banks rose to new high levels.



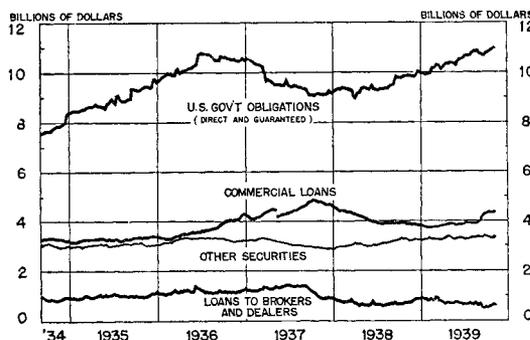
MANUFACTURING PRODUCTION
Indexes of physical volume of production, adjusted for seasonal variation, 1923-1925 average=100. Durable and nondurable series expressed in terms of points in the total index. By months, January 1934 to October 1939.



WHOLESALE PRICES
Index compiled by the United States Bureau of Labor Statistics, 1926=100. By weeks, 1934 to week ending November 11, 1939.



MONEY RATES IN NEW YORK CITY
For weeks ending January 6, 1934 to November 11, 1939.



MEMBER BANKS IN 101 LEADING CITIES
Wednesday figures for reporting member banks in 101 leading cities, September 5, 1934, to November 8, 1939. Commercial loans, which include industrial and agricultural loans, represent prior to May 19, 1937, so-called "Other loans" as then reported.