

# MONTHLY REVIEW

## BUSINESS CONDITIONS IN THE TWELFTH FEDERAL RESERVE DISTRICT

Federal Reserve Bank of San Francisco

August 1, 1941

**T**HE pattern of business developments in the Twelfth Federal Reserve District during June and July followed closely that of other recent months. This pattern was one of continued expansion, with the underlying force of national defense demands losing none of its urgency.

As industrial operations continued to expand uninterrupted, further additions were made to factory employment in June. Aggregate payrolls of factory workers continued to increase, and in the three Pacific Coast states were 58 percent higher than a year earlier when the defense effort had barely entered its initial stages.

In the construction field, the value of privately-financed residential building begun in the district was as large in June as in May, when it attained record proportions for any month in recent years. In addition, large awards were made by the Federal Government for the construction of

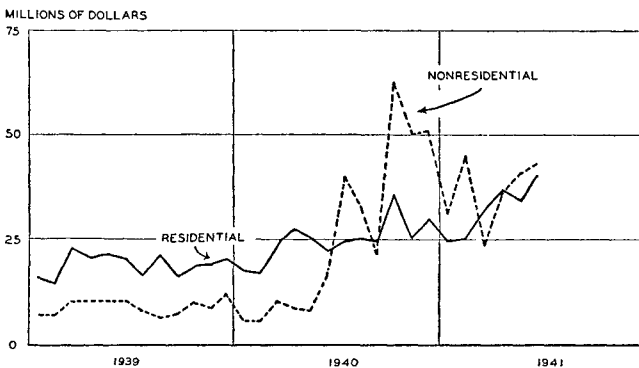
June, the largest reported year-period sales gain was in fur departments. Affected by the same broad influences as those contributing to the sharp recent increases in sales of household appliances, sales of new passenger automobiles in May were the largest for any month on record. Available data indicate that new car registrations in June were maintained at about the level of the preceding month.

Wholesale commodity prices continued the persistent increase of earlier months this year during June and the first half of July. The most marked advance again occurred in prices of farm products as a group. Costs of living increased further in June, largely reflecting higher retail prices of foods. In the four large Pacific Coast cities for which figures of retail costs of food are collected and published by the United States Bureau of Labor Statistics, increases from mid-May to mid-June ranged from 1.6 to 3.2 percent. Gains over a year earlier amounted to 10 percent or more in all four cities.

District member banks continued to experience increased demands for credit for commercial, industrial, and agricultural purposes. Loans of city banks for these purposes increased \$21,000,000 to a total of \$445,000,000 in the four weeks ending July 23 and were \$109,000,000 or 32 percent higher than a year earlier. Investments in Government securities also increased during the four-week period. The gain in earning assets was accompanied by a further rise in adjusted demand deposits. Time deposits declined, a usual occurrence at this season of the year.

### THE PROBLEM OF LABOR SUPPLY

The rapid business expansion during the past year has brought with it some difficulty in securing enough skilled and semi-skilled workers to meet the demands placed upon industry by national defense, and the problem is becoming more acute. Under conditions which have existed during the past year or more, Pacific Coast states, and California more particularly, have been fortunate in having been able to attract labor from other parts of the country. Despite this migration of labor to the Pacific Coast, however, the supply of skilled and semi-skilled workers does not appear to be growing fast enough to meet demands. Partly in response to this developing situation and partly in anticipation of it, some industries, most notably the aircraft industry, have for some time engaged extensively in training-within-industry programs and have fostered the establishing of craft training schools. Both Federal and local governments have also been active in providing training facilities and instruction in the crafts in which workers are in most demand. The necessity of utilizing such programs and other de-



NEW BUILDING CONSTRUCTION—Twelfth District  
Monthly value of new construction, January 1939 to June 1941.

permanent defense housing and, with a sharp revival in contracts for construction of facilities to be occupied by the Army, value of all building initiated in June rose to \$88,300,000. This compares with \$42,469,000 in June 1940, and has been exceeded only once (in October 1940) in the past decade or more.

Large and rising payrolls in industry and in building, together with the substantial gains of recent months in cash farm income, have been factors in stimulating retail trade. Value of department store sales in June declined less than seasonally and was 17 percent higher than in June 1940. As noted in previous issues of this Review, the most marked increases in sales have occurred in departments handling housefurnishings and particularly the major household appliances and radios. Sales of silverware and jewelry departments have likewise shown sharp advances over a year earlier in recent months. In

vices for developing industrial skills in all industrial areas of the Pacific Coast will become more evident with any increase in the pressure for producing more defense material. The penalties placed upon industry and the community as a whole by past failure to maintain and develop such skills become more evident with the increasing urgency of military demand for the products of industry.

AGRICULTURE

Rising demand for farm products in recent months has contributed to substantial gains in district farm cash income. Cash receipts from marketings, together with Government benefit payments, totaled \$103,143,000 in May, an increase of 24 percent compared with a year earlier. For the first five months of the year, the increase over the like period of 1940 has been 13 percent. With prices of farm products rising further in June and July, substantial year-period gains in income are indicated for those months.

Favorable growing and harvesting conditions prevailed generally in the district during June and early July, and reports from most growers indicate that the output of a number of crops will be larger than was anticipated earlier in the season. The present condition of soil moisture in most important dry land farming areas is good to excellent, and supplies of water in the principal irrigated sections of the district generally appear adequate for ordinary requirements.

While the total grain and field crop acreage which will be harvested this year is expected to be about the same as in 1940, large changes have occurred in acreages devoted to several crops. Compared with last year, acreages of barley, late potatoes, and sugar beets are considerably

smaller. Offsetting these decreases are large gains in acreages planted to corn, beans, flaxseed, hops, early potatoes, and rice. The acreage planted to barley in the Pacific Northwest has been increasing in recent years, and although the district acreage for harvest this year is lower than in 1940, it exceeds by 15 percent the long-term average for the 1930-1939 decade. Other crops to which larger acreages have been planted in recent years include flaxseed, grown this season on an acreage 380 percent larger than the 10-year average. The acreage devoted to potatoes this year is 95 percent larger than that average, cotton 24 percent, beans 18 percent, and both rice and hops 17 percent. Influenced by favorable weather conditions during the past winter and spring in the Pacific Northwest, yields per acre of most grains and several field crops are of record or near-record proportions in that area. Elsewhere in the district, yields per acre are generally expected to be only average, as long periods of excessive rainfall during the past winter and spring months retarded growth.

Prospects for citrus and deciduous fruit and nut crops improved during recent weeks. While it is still too early to determine definitely the output of apples, current reports from growers indicate a somewhat smaller crop than was harvested last year. Total bearing acreage has declined from 1940, reflecting in particular the removal of trees in unproductive orchards in Washington, and a continuation of the downward trend in bearing acreage elsewhere in the district. The July 1 condition of pears indicates a crop of over 19,220,000 bushels, slightly under last year's large crop of 20,164,000 bushels, but about 1,000,000 bushels larger than the average produced during the ten years from 1930 through 1939. A large part of the decline in indicated pear production from 1940 has been due to damage from disease and insect infestation.

Although spring frost caused minor damage to grapes in a few scattered localities in California, the excellent set of fruit and good early growth made in most vineyards has resulted in indications of a 1941 production in that State of 2,296,000 tons, compared with 2,246,000 tons in 1940 and an annual average of 1,990,800 tons in the period 1930-1939. The increase over 1940 is due entirely to a larger crop of raisin varieties, as output of other types of grapes is expected to be smaller than a year ago. Of the other important deciduous fruit and nut crops produced in the Twelfth District, only the almond, fig, olive, and peach crops appear to be smaller than in 1940. Estimates of production of apricots, cherries, plums, prunes, and walnuts are all larger than a year ago, and promise above-average crops.

District production of milk and dairy products has

Production and Employment—

Index numbers, 1923-1925 average=100	With Seasonal Adjustment—			Without Seasonal Adjustment—		
	1941 June	1940 May	1940 June	1941 June	1940 May	1940 June
<b>Industrial Production<sup>1</sup></b>						
Manufactures (physical volume)						
Lumber	98	96	89	112	110	101
Refined oils	—	—	—	184	176	155
Cement	—	155	124	—	163	141
Wheat flour	161	152	117	142	134	103
Minerals (physical volume)						
Petroleum	—	—	—	96	94	94
Lead (U. S.) <sup>2</sup>	..	120	117	..	117	116
Copper (U. S.) <sup>2</sup>	..	161	143	..	159	140
Construction (value)						
Residential building permits <sup>3</sup>						
Twelfth District	113	79	60	117	91	63
Southern California	111	85	65	111	95	65
Northern California	140	69	50	143	80	51
Oregon	59	53	48	65	65	53
Washington	87	74	62	94	100	68
Intermountain states	92	105	72	145	147	113
Public works contracts	—	—	—	407	317	213
Miscellaneous						
Electric power production	241	243	227	258	247	243
<b>Factory Employment and Payrolls<sup>4</sup></b>						
Employment						
Pacific Coast	166	158	123	168	160	125
California	199	191	142	199	192	143
Oregon	141	125	105	147	130	110
Washington	113	109	94	117	113	98
Payrolls						
Pacific Coast	195	182	123	201	187	126
California	232	219	142	236	222	145
Oregon	173	145	102	182	155	107
Washington	130	125	93	137	131	98

<sup>1</sup>Daily average.  
<sup>2</sup>Prepared by Board of Governors of the Federal Reserve System. (1935-1939 = 100).  
<sup>3</sup>Includes figures from 197 cities and Los Angeles County, unincorporated.  
<sup>4</sup>Excludes fish, fruit, and vegetable canning.

Distribution and Trade—

Index numbers, 1923-1925 average=100	With Seasonal Adjustment—			Without Seasonal Adjustment—		
	1941 June	1940 May	1940 June	1941 June	1940 May	1940 June
<b>Retail Trade<sup>1</sup></b>						
Automobile sales (number) <sup>2</sup>						
Total	—	—	—	239	237	158
Passenger	—	—	—	233	233	154
Commercial	—	—	—	302	287	199
Carloadings (number) <sup>2</sup>						
Total	104	101	89	112	101	96
Merchandise and misc.	118	117	102	125	110	109
Other	86	80	73	96	90	81

<sup>1</sup>Department and furniture store indexes, customarily shown in this table, are in process of revision.  
<sup>2</sup>Daily average.

been at record or near-record levels in recent weeks. Demand, reflecting increased consumer purchasing power growing out of the expanding defense effort and the Federal food-for-defense program, has been active, and prices are well above those of a year ago. Prices paid farmers for dairy products in mid-July averaged almost 30 percent higher than a year earlier, and were about the same as the peak level of the 1930's reached in 1937. Wool prices likewise have shown a large gain over a year earlier and have been higher than at any time since 1930. A large proportion of the District's 1941 wool clip has already been marketed.

#### CREDIT AND BANKING

Loans of all member banks in the Twelfth District increased approximately \$150,000,000 during the first half of 1941 to a preliminary total of \$2,279,000,000 on June 30. A year earlier loans of these banks amounted to \$1,978,000,000, a year-period increase of 15 percent. Banks both in the larger district cities and in outlying areas have actively expanded their loans in recent months. The increase reported by the former has been accounted for largely by loans for commercial and industrial purposes, while real estate loans have been an important factor in the increase reported by banks in outlying areas.

Member banks in the Twelfth District also added to their investments during the first half of 1941, increasing their holdings of obligations of the United States by \$72,000,000. Investments in other securities were reduced somewhat.

During the first three weeks of July, loans of district city banks for commercial and industrial purposes continued to expand, increasing \$12,000,000 to \$445,000,000 on July 23, a year period gain of \$109,000,000. Open market paper held by local city banks, which had increased appreciably in June, showed little net change in early July.

Sales of defense savings bonds in the Twelfth District from the time they were introduced on May 1 up to and including July 25 have amounted to \$67,120,229 on a par or maturity value basis. Series E securities sold during the period had a maturity value of \$25,126,325, series F of \$8,556,304, and series G of \$33,437,600. For the United States as a whole, sales of defense savings bonds to July 1 amounted to \$707,195,000. Of this total, series E bonds accounted for \$213,562,000, series F \$68,486,000, and series G \$425,147,000.

#### DISTRIBUTION OF EXCESS RESERVES OF TWELFTH DISTRICT MEMBER BANKS

Aggregate reserve balances of member banks with the Federal Reserve Bank of San Francisco, after continuing until mid-May the persistent expansion of 1940, have tended downward slightly during recent weeks. In the last half of June they averaged \$808,900,000 daily. Of this total, \$549,400,000 were required reserves and \$259,500,000 were excess reserves. The latter were about 48 percent of average required reserves.

While district member banks as a group held reserve balances of 48 percent above requirements, reserve positions of individual banks showed wide variations. The distribution of member banks in district reserve cities according to the ratio of excess to required reserves is shown in the table. These 30 district reserve city banks

account for 92 percent of total required reserves and 93 percent of the excess reserves of all member banks in the district.

It will be seen from the table that, although ten reserve city banks having 48 percent of the required reserves of the 30 city banks have excess reserves ranging up to 20 percent, in the aggregate the reserves of these ten banks are only 10 percent in excess of requirements. Including the ten just mentioned, 17 banks accounting for 58 percent of the required reserves of all district reserve city banks, have excess reserves ranging up to 40 percent. On

#### DISTRIBUTION OF TWELFTH DISTRICT MEMBER BANKS BY RATIO OF EXCESS TO REQUIRED RESERVES (based on daily average figures June 15-30, 1941)

Reserve City Banks			
Ratio of Excess to Required Reserves	Number of Banks	Required Reserves	Excess Reserves
0 to 9.9.....	5	\$ 21,012,000	\$ 1,730,000
10 to 19.9.....	5	219,940,000	23,439,000
20 to 39.9.....	7	51,189,000	14,739,000
40 to 59.9.....	3	25,841,000	13,452,000
60 to 79.9.....	3	37,974,000	26,839,000
80 to 99.9.....	2	94,204,000	86,880,000
100 and over.....	5	52,626,000	73,826,000
Totals.....	30	\$502,786,000	\$240,905,000
Country Banks			
0 to 9.9 <sup>1</sup> .....	55	\$ 13,411,000	\$ 629,000
10 to 19.9.....	54	7,811,000	1,128,000
20 to 39.9.....	58	11,981,000	3,172,000
40 to 59.9.....	22	3,956,000	1,967,000
60 to 79.9.....	18	3,246,000	2,239,000
80 to 99.9.....	10	1,693,000	1,494,000
100 and over.....	29	4,532,000	7,919,000
Totals.....	246	\$ 46,630,000	\$18,548,000

<sup>1</sup>Includes a few banks with slight temporary reserve deficiencies.

the other hand, seven banks having less than 30 percent of the reserve requirements of the district city banks hold excess reserves above 80 percent of requirements. Reserve balances of five of these latter banks are double or more than double requirements.

Similar wide variation is evident in the individual reserve positions of this district's so-called country member banks. The reserve position of these 246 banks ranges from slight temporary deficiencies in the case of a few banks to an excess of more than 100 percent of requirements. In this same group of banks, 103 have excess reserves ranging downward from 20 percent of requirements.

The reserve position of an individual bank is not, however, an adequate indication of its possession of idle or surplus funds. A complex of interbank deposit relationships exists. Many banks elect to carry with correspondents a portion of their surplus funds. District country banks have some balances with other local country banks and with banks in reserve and central reserve cities, but the major part of these balances is carried with local reserve city banks. In turn, district reserve city banks maintain balances with member banks in other reserve cities of this district, but the bulk of these interbank deposits is carried with member banks in cities outside the district, particularly with banks in New York. Deposits carried by banks with correspondents may be withdrawn at will, and may thus be used by banks to adjust their reserve positions. Consequently, in considering the reserves of an individual bank or of district member banks as a group, allowance must be made for idle or surplus funds held in the form of balances with correspondent institutions.

## Summary of National Business Conditions

Released July 20—Board of Governors of the Federal Reserve System

INDUSTRIAL production increased further in June, continuing the rapid advance that began about a year ago. Commodity prices, both in retail and in wholesale markets, rose considerably between the early part of June and the third week of July.

### PRODUCTION

Reflecting the continued advance in industrial activity at a time when output ordinarily declines, the Board's adjusted index advanced from 150 percent of the 1935-1939 average in May to 156 in June and preliminary estimates indicate a further rise in July. The current level compares with 104 before the start of the European war and 111 in the spring of 1940, when the current advance in industrial activity began.

Further increases in output were reported in June for a considerable number of industries, particularly those associated closely with the defense program, and there were no important declines. As in other recent months, activity in the aircraft, shipbuilding, machinery, and railroad equipment industries rose sharply. Automobile production was maintained at the high level of May, owing mostly to unusually large retail sales. Output of iron and steel and nonferrous metals, already close to capacity, did not show an increase to correspond with the rise in output of finished metal products and official statements indicated growing concern over shortages of numerous materials. Steel ingot production remained close to 99 percent of capacity during June, but the rate in the middle of July was slightly lower. For the year to date output of steel has averaged 98 percent of the rated capacity as of December 1940.

Output of textiles and most other nondurable manufactures in June continued at recent advanced levels, which in some instances represent capacity production. Output of chemicals continued to increase rapidly. Also, there was a sharp rise in rubber consumption, reflecting continued heavy demand for rubber products and the fact that June was the last month before curtailment of rubber consumption by industry was to go into effect and was the month to be used in apportioning July consumption among various manufacturers.

Mineral production increased in June, with a marked rise in output of anthracite, some further increase in output of bituminous coal, and a continued advance in crude petroleum production to a new high level.

Value of construction contract awards in June continued at the high level reached in May and was nearly two-thirds above a year ago, according to figures of the F. W. Dodge Corporation. Awards for public construction again increased sharply, reflecting continued expansion in the volume of defense construction projects. Private residential building contracts declined somewhat more than seasonally, following an increase in May.

### DISTRIBUTION

Sales of general merchandise showed little change from May to June. Department store sales decreased more than seasonally, while rural retail and variety store sales remained at the May level, although a decline is usual at this time of the year. In the early part of July sales at department stores rose somewhat and were 24 percent higher than a year ago.

Loadings of revenue freight increased further in June, reflecting continued expansion in shipments of coal and miscellaneous merchandise, and by the end of the month were in larger volume than at any time during the seasonal peak last autumn.

### COMMODITY PRICES

Wholesale prices of most groups of commodities continued to advance from the early part of June to the middle of July. Prices of foodstuffs showed large increases and there were substantial advances in prices of a number of industrial raw materials and finished products. Following earlier marked advances, prices of hides and cotton gray goods were reduced by governmental action. Retail prices for foods and many other commodities have been rising and in June the cost of living was about 4 percent higher than four months earlier. Preliminary figures indicate further advances in July.

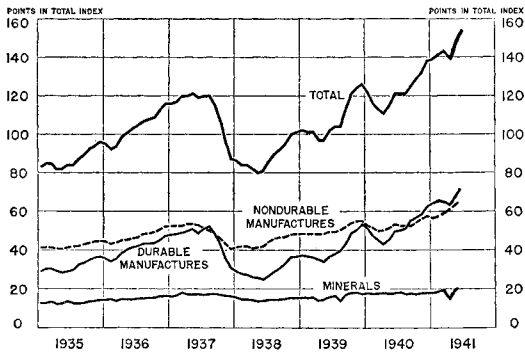
### BANK CREDIT

Holdings of United States Government securities by member banks in 101 leading cities increased further during June and early July, reflecting in part new offerings by the Treasury. Commercial loans continued to rise sharply.

Notwithstanding the greater volume of bank loans and investments, deposits of city banks declined somewhat over the period, reflecting mainly a growing demand for currency and a building up of Treasury deposits at the Reserve Banks. These developments also resulted in a decrease in the volume of excess reserves, which amounted to about \$5,300,000,000 on July 16, compared with \$6,900,000,000 a year earlier.

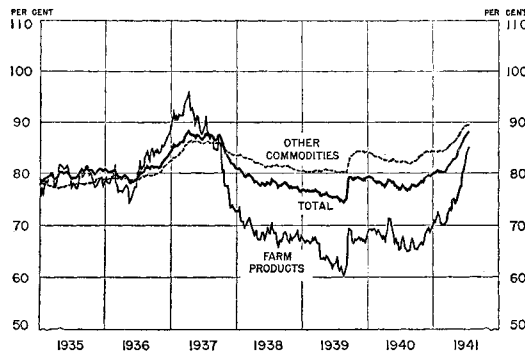
### UNITED STATES GOVERNMENT SECURITY PRICES

United States Government securities advanced further during the latter part of June. Partially tax-exempt 1960-65 bonds on June 26 were at an all-time peak, on a 2.02 yield basis. Since that time they have declined slightly. Taxable bonds generally continued to advance to successive new high levels. Yields on Treasury notes showed little change during the latter part of June and the first half of July.



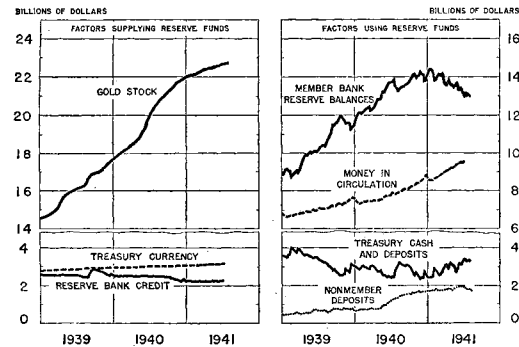
### INDUSTRIAL PRODUCTION

Federal Reserve index of physical volume of production, adjusted for seasonal variation, 1935-39 average=100. Subgroups shown are expressed in terms of points in the total index. By months, January 1935 to June 1941.



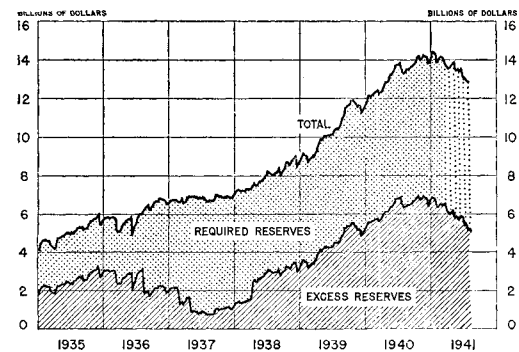
### WHOLESALE PRICES

Bureau of Labor Statistics' indexes, 1926=100. "Other" includes commodities other than farm products and foods. By weeks, January 5, 1935 to week ending July 12, 1941.



### MEMBER BANK RESERVES AND RELATED ITEMS

Wednesday figures, January 4, 1939 to July 9, 1941.



### MEMBER BANK RESERVES

Wednesday figures, January 2, 1935 to July 9, 1941. Required and excess reserves, but not the total, are partly estimated.