Monthly Review

FEDERAL RESERVE BANK OF SAN FRANCISCO

DECEMBER 1943

The Fourth War Loan Drive

THE Fourth War Loan Drive will open January 18 and close February 15. The major emphasis throughout the drive will be placed upon sales to individuals, and in order to center attention upon the response of individuals, only those sales will be reported by the Treasury during the first two weeks. As in the September drive, sales will be confined to investors other than commercial banks, with the exception noted below.

Fourteen billion dollars has been set as the goal, 5.5 billion of which is to be raised directly from individuals, and 8.5 billion from other non-bank investors. Although the overall goal is one billion dollars under the goal of the third drive and more than four billion under the sales of the last drive, the quota for individuals is higher than sales to individuals in any earlier drive. In the third drive, the quota for individuals, five billion dollars, was 33 percent of the overall goal and sales to individuals of 5.4 billion were 28 percent of total sales. The quota for individuals in the forthcoming drive is 40 percent of the goal for the drive as a whole.

Securities to be offered include Series E, F, and G Savings Bonds, Series C Savings Notes, ⅞ percent certificates of indebtedness, 2¼ percent bonds of 1956-59, and 2½ percent bonds of 1965-70. The list is similar to that of previous drives, except that the 2¼ percent 15-year bond replaces the 2 percent 10-year bond previously offered.

Sales to Individuals

In order to obtain funds in excess of tax receipts without the creation of additional deposits, the Treasury must sell securities outside of the banking system. In order to provide a curb beyond that being exercised by taxes on inflationary pressures resulting from demands for goods which are in excess of supplies, holders of funds must be induced to divert them from expenditures for goods and services to the purchase of securities. Herein lies the importance of purchases of Government securities by individuals, and the even greater significance of widespread sales of smaller denomination savings bonds to those with moderate and smaller incomes. Intensified efforts to increase sales of Government securities to individuals are especially necessary at this time.

Banks and the War Loan Drive

Certain restrictions have been placed upon bank purchases of Government securities. Commercial banks may not, in general, purchase savings bonds; they may not hold the 2½ percent bonds until ten years after date of issue; they may not hold the 2¼ percent bonds until September 15, 1946; they are asked not to purchase, during the drive, the ⅞ percent certificates of indebtedness offered; and they are asked to refuse to make speculative loans for the purchase of Government securities.

This list of necessary restrictions, however, should not be allowed to obscure the fact that commercial banks have a positive and important part to play in the loan drives. A large volume of savings bond sales and all subscriptions for other Government securities are made through the facilities of the banking system. Banks are, to the majority of their depositors, probably the most effective Treasury salesmen. Permanent investment in Government securities is facilitated by loans to individual subscribers who wish to anticipate future income, and banks are encouraged to make such loans on a short term basis, not exceeding six months.

Participation of Commercial Banks Holding Savings Deposits

Restrictions have been modified upon commercial bank purchase of Series F and G Savings Bonds, effective January 1, 1944, and upon the purchase of 2¼ and 2½ percent bonds during the Fourth War Loan Drive. Commercial banks holding savings deposits may make limited purchases of these securities. Any such bank may subscribe to any or all of those four bonds in an amount not in excess, in the aggregate, of 10 percent of its savings deposits on December 31, 1943 or $200,000, whichever is less. A bank's combined holdings of Series F and G Savings Bonds, however, must not exceed $100,000 (issue price). Sales to commercial banks during the drive will be considered as outside of the 14 billion dollar goal.

These changes, which place commercial banks that also perform the functions of a savings bank on a basis more comparable to that of mutual savings banks, are of particular interest to commercial banks in the Twelfth District. There are only three mutual savings banks in the District, and savings deposits of commercial banks are considerably more important, relatively, in this area than in the country as a whole. This is illustrated by the fact that on June 30 of this year, savings deposits were about 18 percent of total deposits, excluding interbank deposits, of all member banks in the United States, but were about 30 percent of the total in the Twelfth District.

★ Let's All Back the Attack ★ Buy War Bonds ★

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Review of Business Conditions—Twelfth District

Recent Changes in the War Production Program

CHANGES in the war production program are of primary importance in any consideration of economic developments in the Twelfth District within the near future. Sudden and unpredictable changes, depending upon the course of the war itself, may occur at any time. Nevertheless, as next year's program now appears, war supplies will be called for at about the annual rate attained late in 1943, but in greater volume than in 1943 as a whole. The rate of increase from 1942 to 1943, however, will not—and probably could not—be carried into 1944.

Current modifications of the war production program are reflected in estimates of the War Production Board that total munitions expenditures during 1944 will be 76.7 billion dollars, a substantial reduction from the 82.4 billion dollars estimated earlier. Cutbacks in the production of some items, including small arms and small arms ammunition, stem from expansion in supplies sufficient to allow procurement to be limited to replacement. Other cutbacks, for example in anti-aircraft equipment, reflect the subordination of defensive operations to preparations for attack, greater emphasis being placed on the production of offensive weapons and supplies, such as aircraft, aviation gasoline, landing craft, and heavy trucks. The War Manpower Commission recently announced that, subject to local conditions, top manpower priorities are being given to aircraft assembly, ship repair, and the manufacture of lumber, high-octane gasoline, synthetic rubber, ball bearings, and foundry and forge products.

Changes in the Twelfth District

Cutbacks in production are as yet of negligible importance in the Twelfth District. Perhaps the most important made thus far in the District, because of the attainment of adequate supplies, was in the production of small arms ammunition. During December an 86 million dollar ordnance plant in Utah, constructed two years ago, was closed down, releasing several thousand workers for other work in the Salt Lake City area. As a result of an easing in the supply of structural steel shapes, the WPB in December ordered construction stopped on the structural steel unit of the $180,000,000 steel plant near Provo, Utah. A similar easing in the supply of steel ingots was reflected in the closing down of two open hearth furnaces at the new steel plant near Fontana, California.

Cutbacks of another type, that is, those resulting from the changeover from defensive to offensive military operations, have occurred principally in shipbuilding in this District. Such revisions as have been made in the West Coast shipbuilding program are for the purpose of providing facilities for work of more urgency, and no overall slackening in activity is yet contemplated. For example, contracts for 13 destroyers, cruisers, and fleet tugs have been transferred from Pacific Coast to eastern yards, and scheduled construction of certain low priority craft such as patrol escort vessels has been cancelled in order to free facilities for repair of vessels damaged in battle. Additional repair facilities are being constructed. For the most part these changes have occurred in yards with navy contracts. No major revisions have been made in yards operated for the Maritime Commission.

Effects Upon Manpower

Prospective curtailment in the planned production of war matériel and greater efficiency in the utilization of labor have been reflected in a downward revision of estimated manpower needs for 1944. Nevertheless, in the nation as a whole, one million more workers will be required in munitions production by July 1944 than were employed in September 1943, according to the WMC.

The manpower situation in the District should remain tight for some time, because of the significance in this area of aircraft production, shipbuilding and repair, and lumbering. Expected further declines in construction activity should release some workers, but it is unlikely that any significant number of additional workers will shift from so-called less essential activities to war plants. As of December 1, all major war production centers in the

Distribution and Trade—

Index numbers, 1935-39 daily average=100	With Seasonal Adjustment 1943 Oct.	Sept.	Aug.	1942 Oct.	Without Seasonal Adjustment 1943 Oct.	Sept.	Aug.	1942 Oct.
Retail Trade								
Department Store Sales (value)								
Twelfth District	210	189	198	183	219	197	180	191
Southern California	218	191	192	178	220	196	179	180
Northern California	188	178	174	168	193	177	158	172
Portland	216	178	199	199	228	202	190	210
Western Washington	255	211	240	229	268	236	226	240
Eastern Washington and Northern Idaho	162	182	197	145	220	207	178	198
Phoenix	211	245	283	196	230	215	197	213
Carloadings[1] (number)								
Total	101	108	103	107	119	124	119	126
Merchandise and Misc.	107	113	114	130	130	132	127	137
Other	94	102	89	100	105	113	108	112

[1] 1923-25 daily average = 100.

Production and Employment—

Index numbers, 1923-25 average=100	With Seasonal Adjustment 1943 Oct.	Sept.	Aug.	1942 Oct.	Without Seasonal Adjustment 1943 Oct.	Sept.	Aug.	1942 Oct.
Industrial Production[1]								
Lumber[2,3]	134	131	127	142	153	152	152	154
Refined Oils	—	—	—	—	198	197	198	196
Cement	139	148	135	182	161	157	151	210
Wheat Flour	113	108	121	97	134	128	121	116
Petroleum	—	—	—	—	119	118	118	110
Electric Power	436	419	389	339	434	439	426	338
Factory Employment and Payrolls[2,3,4]								
Employment								
Twelfth District	307	307	312	264	311	311	315	269
California	362	364	371	303	365	366	372	308
Pacific Northwest	239	234	237	222	343	242	242	226
Oregon	220	217	220	202	224	225	226	205
Washington	250	244	247	234	254	251	251	238
Intermountain	155	158	161	150	166	163	161	161
Payrolls								
Twelfth District	606	635	618	484	617	640	629	497
California	708	747	726	541	715	749	730	551
Pacific Northwest	469	483	470	423	489	494	499	441
Oregon	346	408	399	353	366	394	428	373
Washington	541	526	511	464	560	552	540	480
Intermountain	315	331	335	254	325	336	324	239

[1] Daily average.
[2] 1935-39 average = 100.
[3] Revised series. Back figures will be supplied on request.
[4] Excludes fish, fruit, and vegetable canning.

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Twelfth District except the Salt Lake City-Ogden region remained classified as areas of current acute labor shortage. The reclassification of Salt Lake City and Ogden to the less critical "labor stringency" category reflected the release of workers from the Utah ordnance plant.

In October, the latest month for which complete data are available, 1,236,000 wage-earners were employed in District factories (excluding canneries), the same number as in September when employment fell off substantially, in part because of the reopening of schools and colleges. A peak of 1,252,000 wage-earners had been employed during July. In California, where currently about 70 percent of District manufacturing wage-earners are employed, employment showed practically no change in November from the October level.

Manpower Requirements in Aircraft and Shipbuilding

Failure to realize anticipated employment levels at many war plants and, to some extent, increased efficiency at aircraft plants and at shipyards, have prompted the WMC to establish employment ceilings for those industries considerably lower than previous estimates of peak needs. The ceiling for 12 major airframe plants on the West Coast has been set at 308,000 persons, a reduction of 27,000 from the total number of workers it had been estimated the plants would require to attain peak production schedules. A total of 292,500 persons, 15,500 under the ceiling, were employed by the same plants on November 1, two weeks before the new West Coast manpower plan was inaugurated and under the terms of which employment ceilings have been created. The decline in aircraft employment from April through September was halted in October, and on November 1, employment was slightly higher than a month earlier.

Even greater reductions in estimated maximum employment are indicated for Pacific Coast shipyards. On November 1, 28 major Pacific Coast shipyards representing over three-fourths of total employment in Pacific Coast shipbuilding, employed 453,000 workers, compared with 465,000 two months earlier. Because of better labor utilization, however, there was no decline in output, and it is anticipated that peak output schedules will be met next year by adding only 34,000, or 7 percent, to the November 1 total. Previously, peak labor needs had been placed at 131,000 more workers than were employed on November 1. The largest reduction in estimated shipbuilding labor needs was made in the San Francisco Bay Area. Present ceilings as set by the WMC will permit an increase of employment of 6,500, although the 9 major yards in that area had indicated a combined need for more than 68,000 additional workers.

Member Bank Loans and Investments

On October 18, the latest date for which figures for all member banks are available, total loans of Twelfth District member banks amounted to 2.2 billion dollars, an increase of 10 percent over the June 30 total of 2 billion. Security holdings were 6.7 billion dollars, up 22 percent from June 30 holdings of 5.6 billion. For the country as a whole, member bank loans increased 20 percent during that period, and investments 15 percent.

Increase in Loans

A breakdown of member bank loans by type is not yet available, but changes in loans of weekly reporting member banks indicate that the increase from June 30 to October 18 resulted primarily from an increase in loans for purchasing and carrying securities during the Third War Loan Drive. Such loans of reporting banks approximately doubled between the end of June and mid-October, both in the nation and the District, with almost all of the increase taking place during the four weeks ending October 6. Since that time, those loans have declined steadily, and the decline has been sufficient to lower total loans as well. A similar pattern may be expected early in 1944 as a result of the Fourth War Loan Drive.

The temporary nature of the major part of the increase is illustrated by the following percentage changes in total loans of weekly reporting banks from June 30, 1943:

	U. S.	12th District
To September 8	+ 2	0
October 6	+28	+20
October 20	+25	+16
December 22	+16	+ 8

Commercial, industrial, and agricultural loans of weekly reporting banks, however, have shown a moderate but fairly steady gain since mid-1943, following a consistent decline which began in April 1942. On December 22, as compared with June 30, these loans were up 24 percent in the Twelfth District and 17 percent in the United States, and in comparison with a year earlier were greater by 11 percent in the District and 5 percent in the nation.

Increase in Investments

The rise in investments of member banks continues to be accounted for by increased Government security holdings. From June 30 to October 18, District member banks increased their holdings of Government securities by 1.1 billion dollars or 22 percent to 6.1 billion dollars; during the same period holdings of all member banks in the country increased by 8.2 billion or 15 percent to 60.3 billion. Approximately 30 percent of the increase in the public debt during that period was absorbed by member banks.

Banking and Credit—

Averages of Wednesday figures (millions of dollars)	1943 Nov.	Change From 1943 Oct.	Change From 1943 Sept.	Change From 1942 Nov.
Condition Items of Weekly Reporting Member Banks				
Total loans	1,052	— 23	+ 82	+ 21
Com'l, ind. & agric. loans	533	+ 13	+ 61	+ 47
Loans to finance securities transactions	93	— 29	+ 23	+ 54
Real estate loans	319	— 3	— 6	— 46
All other loans	107	— 4	+ 4	— 34
Total investments	3,903	+ 90	+447	+1,714
United States Gov't securities	3,587	+218	+562	+1,701
All other securities	316	—128	—115	+ 13
Adjusted demand deposits	2,546	+116	+ 53	+ 661
Time deposits	1,302	+ 23	+ 37	+ 194
United States Gov't deposits	954	— 83	+459	+ 837
Coin and Currency in Circulation				
Total (changes only)	..	+ 87	+138	+ 716
Fed. Res. notes of F. R. B. of S. F.	1,837	+ 87	+212	+ 650
Member Bank Reserves	1,375	+ 52	+101	+ 161

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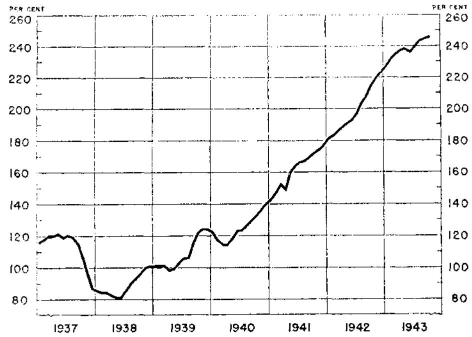
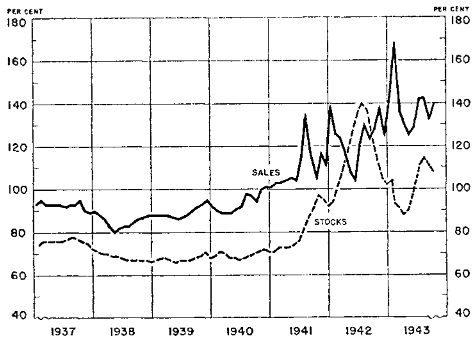


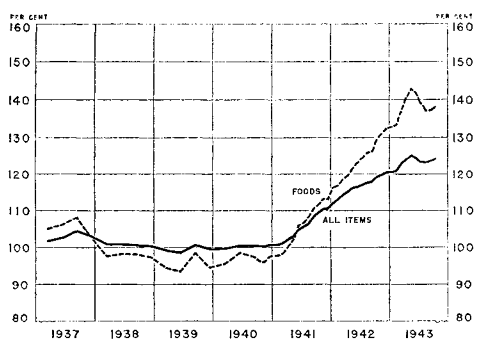
INDUSTRIAL PRODUCTION

Federal Reserve index of physical volume of production, adjusted for seasonal variation, 1935-39 average=100. Monthly figures, latest shown is for October.



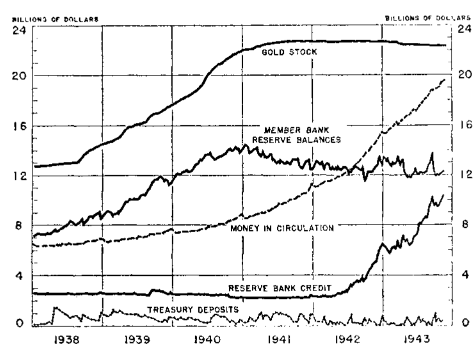
DEPARTMENT STORE SALES AND STOCKS

Federal Reserve indexes of value of sales and stocks, adjusted for seasonal variation, 1923-25 average=100. Monthly figures, latest shown are for October



COST OF LIVING

Bureau of Labor Statistics indexes, 1935-39 average=100. Last month in each calendar quarter through September 1940, monthly thereafter. Mid-month figures, latest shown are for October.



MEMBER BANK RESERVES AND RELATED ITEMS

Wednesday figures, latest shown are for November 17.

Summary of National Business Conditions

Released November 26, 1943—Board of Governors of the Federal Reserve System

INDUSTRIAL activity was maintained in record volume in October and the early part of November. Value of department store sales continued at an exceptionally high level.

Industrial Production

The total volume of industrial production continued to increase slightly in October and the Board's seasonally adjusted index was at 245 percent of the 1935-39 average, as compared with 240 in July and 227 in January. War production in the machinery and transportation equipment industries showed a further rise, reflecting largely a new high level of production of aircraft, aircraft engines, and parts. The total number of planes accepted during the month was 8,362, or 11 percent more than the average in the third quarter. Deliveries of cargo vessels from merchant shipyards continued at an annual rate of 20,000,000 deadweight tons.

Steel mills operated during October at the highest monthly rate during the war period. Production of nonferrous metals also continued to rise. Announcement of permission to use aluminum in additional types of war products and some essential industrial products followed rapidly increasing output of this metal. Lumber production declined somewhat more than usual at this season and the prospective supply situation remains critical notwithstanding reduced demand for lumber for building purposes. Output of stone, clay, and glass products as a whole showed little change and was at about the level of a year ago. Cement production in October was down 40 percent from last year but production of other stone, clay, and glass products, like glass containers and asbestos and abrasive products, was considerably higher than last year.

Output of most nondurable goods showed little change from September to October. Food manufacturing as a whole continued in large volume, allowing for seasonal changes, although butter and cheese production declined. Output of butter was 11 percent below last year in October and declined further in the early part of November. Meat-packing, however, was at an exceptionally high level in October and continued to increase sharply in the first three weeks of November. There was also a rise in production of wheat flour and other manufactured foods in October. Output of textile and leather products remained at the somewhat reduced rate of recent months, while production of rubber products and industrial chemicals increased. Coal production declined 6 percent in October and dropped sharply further during the first week of November, but increased in the middle of November.

The value of construction contracts awarded in October, according to reports of the F. W. Dodge Corporation, continued at the low level of other recent months. Total contracts awarded this year have been 60 percent smaller than in the corresponding period of 1942, when they were at the highest level of the war period.

Distribution

Department store sales in October and the first half of November were 10 percent larger in dollar volume than in the same period last year, and, allowing for seasonal changes, sales were somewhat higher than in the third quarter of this year. Total consumer expenditures for commodities and services in the third quarter were at about the peak level prevailing in the first half of this year and were substantially larger than a year ago.

Carloadings of railway freight in October were slightly less than in September, reflecting chiefly declines in shipments of coal and ore. Loadings of grain increased sharply to a level 20 percent greater than in October 1942, and livestock shipments were the highest in recent years.

Commodity Prices

Grain prices advanced in the early part of November, while prices of livestock declined as livestock marketings expanded sharply. Prices of certain industrial raw materials, such as cotton, wool, and nonferrous metal scrap, have also declined somewhat since the middle of October reflecting larger supplies and uncertainties as to the extent of demands for these materials in war production.

The total cost of living which had declined 1.4 percent during the summer, according to the Bureau of Labor Statistics, rose .8 percent from mid-August to mid-October. There were increases in prices of food, clothing, and a number of miscellaneous items.

Bank Credit

The average level of excess reserves at all member banks was around 1.1 billion dollars in mid-November reflecting some decline from the comparable October period. During the four weeks ending November 17 reserve funds were supplied to member banks by an increase of over 900 million dollars in the Government security portfolio of the Reserve Banks; increased holdings consisted largely of bills purchased under option and in part of certificates. The effect of these security purchases on excess reserves was more than offset, however, by a currency demand of 540 million dollars and a continued increase in required reserves as Treasury disbursements transferred funds from reserve-exempt war loan accounts to private deposits.

Following substantial bank purchases of special Treasury offerings in mid-October, Government security holdings at reporting member banks in 101 leading cities declined somewhat over the following month. The principal decrease was in holdings of bills at banks outside New York. Commercial loans, while decreasing during the past two weeks, showed a net gain for the four-week period, while loans on securities, which rose to a high level during the Third War Loan Drive, declined substantially.

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