

MONTHLY REVIEW

OF BUSINESS CONDITIONS

ISAAC B. NEWTON, Chairman of the Board and Federal Reserve Agent
Federal Reserve Bank of San Francisco

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No. 9

SUMMARY OF NATIONAL CONDITIONS

Prepared by the Federal Reserve Board

Production in basic industries increased somewhat in August as compared with July, but the increase was less than is usual at this season. As a result, the Federal Reserve Board's index of industrial production, which makes allowance for seasonal changes, showed a decline. Wholesale prices declined slightly. Credit extended by member banks increased between the middle of August and the middle of September, reflecting chiefly a growth in commercial loans.

Production. During the month of August there was a reduction in the output of iron and steel and copper, and a slight decline in the production of automobiles. Meat packing establishments were also somewhat less active during the month, while seasonal increases were reported in the production of textiles, shoes, coal, cement, flour, and sugar. Petroleum output continued to expand. A slight increase in the number of workers employed in factories was accompanied by a substantial increase in payrolls. This increase was especially notable in industries manufacturing products for the autumn retail trade, such as clothing and furniture.

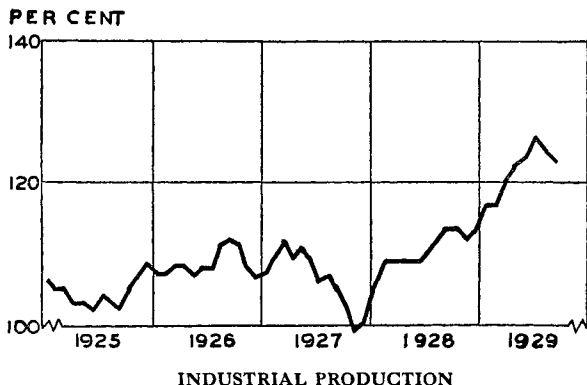
For the first two weeks of September reports indicate a further decline in steel operations; a reduction in lumber output, resulting in part from the Labor Day holiday; and a continued

seasonal rise in coal production. In the construction industry contracts awarded in August were 25 per cent less than in July, reflecting a sharp decline in the residential group, as well as in contracts for public works and utilities which were unusually large in July. As compared with last year, contracts were five per cent lower in August, but in the first two weeks of September they were in approximately the same volume as in 1928.

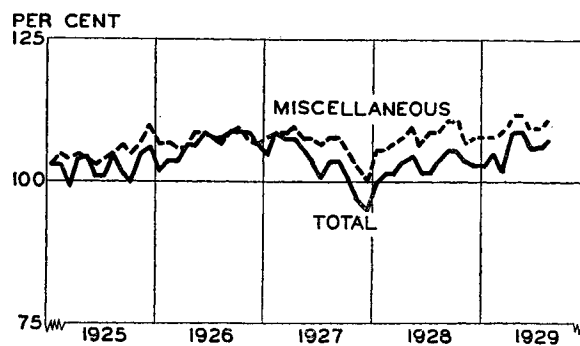
The September report of the Department of Agriculture indicates a corn crop of 2,456,000,000 bushels, which is 13 per cent less than in 1928 and 11 per cent under the five-year average. The estimated wheat crop of 786,000,000 bushels is substantially below last year, but only slightly less than the five-year average. Cotton production, estimated on August 1 at 15,543,000 bales, is now expected to total 14,825,000 bales, or slightly more than last year.

Distribution. Freight carloadings increased seasonally in August as a consequence of larger shipments of all classes of freight except grains, which moved in smaller volume than in July when shipments of wheat were unusually large. In comparison with 1928, total carloadings showed an increase of five per cent.

Sales of department stores in leading cities were larger than in July and about five per cent above the total of August, 1928.



INDUSTRIAL PRODUCTION
Index number of production of manufactures and minerals, combined, adjusted for seasonal variations (1923-1925 average = 100). Latest figure, August, 123.

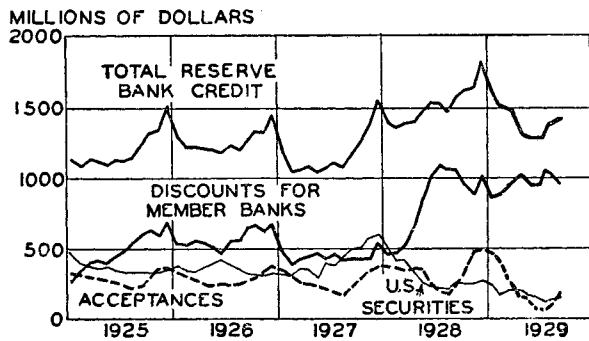


RAILROAD FREIGHT - CARLOADINGS
Cars of revenue freight loaded as reported by the American Railway Association. Index numbers adjusted for seasonal variations, (1923-1925 average = 100). Latest figures, August, total 109, miscellaneous, 113.

Prices. Wholesale prices showed a slight downward movement in August, according to the index of the United States Bureau of Labor Statistics. This reflected chiefly declines in the prices of farm products, especially grains and flour, and livestock and meats. Woolens and worsteds also decreased in price, while silk and rayon materials were higher. There were declines in prices of iron and steel and

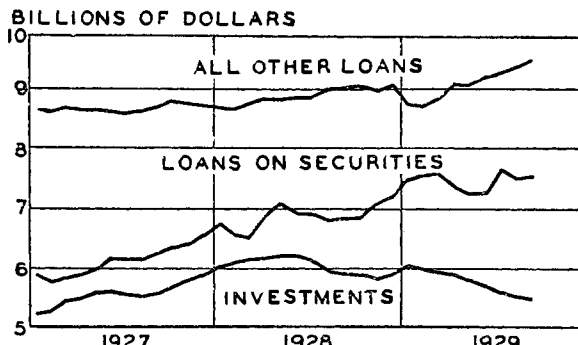
ing cities. Security loans also increased, while investments continued to decline.

During the first half of September the volume of reserve bank credit outstanding was about 120 million dollars larger than in the middle of the year. The increase was for the most part in the reserve banks' acceptance holdings and reflected chiefly growth in the demand for currency, partly seasonal in character. Discounts



RESERVE BANK CREDIT

Monthly averages of daily figures for 12 Federal Reserve Banks. Latest figures are averages of first 22 days in September.



MEMBER BANK CREDIT

Monthly averages of weekly figures for reporting member banks in leading cities. Latest figures are averages of first three weeks in September.

automobiles, and further decreases in prices of petroleum and its products, especially gasoline. Coal prices advanced during the month.

In the middle of September the prices of grains, beef, raw sugar, silk, and coal were higher than at the end of August, while prices of hogs, pork and cotton were somewhat lower.

Bank Credit. Between the middle of August and the middle of September there was a further rapid increase in loans for commercial and agricultural purposes at member banks in lead-

ing cities. Security loans also increased, while investments continued to decline. During the first half of September the volume of reserve bank credit outstanding was about 120 million dollars larger than in the middle of the year. The increase was for the most part in the reserve banks' acceptance holdings and reflected chiefly growth in the demand for currency, partly seasonal in character. Discounts

for member banks, following the increase over the holiday period early in September, declined at the time of the Treasury financial operations around the middle of the month, and on September 18 were at a lower level than at any time since last June. Open market rates on prime commercial paper increased from a range of 6-6¼ to a prevailing level of 6¼ during the first week in September, while acceptance rates remained unchanged.

TWELFTH FEDERAL RESERVE DISTRICT CONDITIONS

The high level of business activity reached during July was generally maintained during August.

The position of agriculture did not change materially during the month. Harvesting has proceeded rapidly under favorable weather conditions, and relatively satisfactory prices are being received by growers for most farm products. A shortage of rainfall during the past spring and summer has harmed the District's livestock ranges and has accelerated marketing of cattle and sheep.

Retail sales in August exceeded those of July by a slightly smaller amount than usual, while wholesale trade increased more than seasonally during the month. Sales at both wholesale and retail were above the levels of August, 1928. Carloadings on the District's railroads increased during August but were fewer in number than a year ago. The volume of waterborne trade passing to and from this District through the Panama Canal increased, largely as a result of increased eastbound shipments of refined petroleum products.

Industrial production was at higher levels during August, 1929, than in either July, 1929, or August, 1928, and this sustained activity was reflected in a generally improved employment situation. Petroleum output in August exceeded that of July. Lumber production, as is customary during this month, increased substantially.

There was little fundamental change in the banking situation during August and the first half of September, changes in member bank and Reserve Bank credit in use being largely seasonal in nature. Since April of this year member bank loans for commercial purposes have been higher than in any preceding similar period. They expanded seasonally during the past month to the highest figure of record. Security loans of these banks have also been higher this year than at any previous time and during early September they were not far below the record level reached in mid-summer. Increases in bills discounted and in holdings of purchased acceptances at the Reserve Bank have accompanied expansion in loans of member banks.

Agriculture

The dry weather which has prevailed during much of the 1929 agricultural season, continued throughout August and early September. Although this exceptional lack of rainfall has favored harvesting activities, it has had an adverse effect upon the growth of late maturing grain and field crops, the fall planting of wheat, and the growth of forage on winter livestock ranges. Crop production forecasts of the United States Department of Agriculture have generally been upheld by available estimates of harvest returns, which make it appear certain that the aggregate crop yield will be smaller than last year. Prices of many crops raised in the District have increased slightly during recent weeks, and farm products prices generally are at higher levels than one year ago.

Among the **grains**, smaller crops of wheat and barley and a larger crop of oats are being harvested this year than in 1928. Smaller yields per acre as well as decreases in the acreage harvested have caused the decline in production of wheat and barley.

GRAIN CROPS—PRODUCTION AND ACREAGE

	Production		Acreage	
	Forecast Sept. 1, 1929	1928	Available for Harvest July 1, 1929	Har- vested 1928
Winter Wheat				
Twelfth District ...	73,819	87,655	3,422	3,710
United States	568,233	578,000	39,885	36,179
Spring Wheat*				
Twelfth District ...	35,399	38,091	2,026	1,850
United States	164,461	231,015	15,514	14,834
Barley				
Twelfth District ...	41,629	46,413	1,320	1,410
United States	304,143	356,667	13,595	12,539
Oats				
Twelfth District ...	36,842	35,480	914	867
United States	1,204,987	1,448,677	40,222	41,733

*Other than Durum wheat.

Source: United States Department of Agriculture.

Marketing of **wheat**, as indicated by carlot receipts and export shipments at Pacific Coast terminals, has been more active this year than last. Carlot receipts of wheat at terminals in the Pacific Northwest during the 1929 crop season to September 10 were 11 per cent larger than during the same period in 1928. During July and August, 1929, wheat exports from Puget Sound and Columbia River ports totaled 4,607,285 bushels, as compared with 4,008,489 bushels exported during the same two months a year ago. Export movement of **barley** from San Francisco during July and August totaled 3,021,855 bushels. There were 4,013,242 bushels of barley exported during these same two months in 1928.

During August there were few changes in the estimates of **deciduous fruit** production in the District. Marketing of most fresh deciduous fruits, excepting apples and grapes, has been completed, and yields have, in nearly all cases, been lower this year than last. A marked increase in fresh fruit prices as compared with a year ago, however, has increased returns for this year's short crops and has greatly benefited those individual producers who secured normal yields.

Marketing of California grapes increased in volume during the month, but the season's shipments, up to September 9, totaled only 7,226 carloads as compared with 13,039 carloads shipped during the corresponding period in 1928.

Estimates of this year's production of **field crops**, excepting **beans** and **cotton**, show reduced yields as compared with a year ago.

FIELD CROPS—PRODUCTION

	Forecast		
	Sept. 1, 1929	1928	1927
Beans—Dry (bu.)			
California, Idaho	6,515	5,901	6,531
United States	17,254	16,630	16,891
Cotton (bales)			
Arizona, California	389	321	182
United States	14,825	14,478	12,955
Hops (lbs.)			
California, Oregon, Washington	32,139	32,742	29,794
United States	32,139	32,742	29,794
Potatoes (bu.)			
Twelfth District	39,014	47,107	55,756
United States	349,112	464,483	406,964
Rice (bu.)			
California	4,788	8,073	8,960
United States	35,285	41,881	40,231
Sugar Beets (tons)			
California, Idaho, Utah	1,543	1,578	1,534
United States	7,865	7,101	7,753
Tame Hay (tons)			
Twelfth District	13,876	14,568	15,312
United States	93,600	92,983	106,001

Source: United States Department of Agriculture.

Citrus fruit crops in California are now in poorer condition than were the crops of one year ago. The reported condition of the 1929-1930 Navel orange crop was 58 per cent of normal on September 1, a figure well below that of most recent years. The condition of the forthcoming lemon crop was 62 per cent of normal on September 1 as compared with 86 per cent of normal a year ago.

Shipments of the 1929 Valencia orange crop from California during the months of June, July, and August totaled 20,768 carloads, the heaviest shipments ever recorded for these three months. The movement of lemons from California amounted to 5,843 carloads during the same period, a somewhat larger figure than the 5,140 carloads reported shipped during June, July, and August, 1928. Despite the large shipments of oranges during August, average prices (f.o.b. California) increased 27 per cent during the month. The average price of lemons at California shipping points increased 43 per cent during the month.

The adverse effects of this year's scant rainfall have been most obvious, perhaps, on the **livestock ranges** of the District. Recently there has been some improvement in range conditions in Arizona and Utah, as a result of seasonal rains, but in California and the Pacific Northwest a condition of semi-drought has persisted. Livestock, thus far, have been maintained in relatively good condition, but stock recently marketed have tended to be under-weight, a reflection of the continued scarcity of range feed. Early and generous rains are also needed on this District's winter ranges if they are to supply an adequate amount of winter feed, a consideration of importance since the 1929 hay crop combined

with the small carryover from the 1928 crop will furnish a smaller supply of supplementary feed than was available a year ago.

The autumn movement of livestock from the District's ranges to market and feed-lots is now under way. During August 505,038 head of sheep and 76,305 head of cattle and calves were received at the eight principal stockyards as compared with 439,732 head of sheep and 83,438 head of cattle and calves received at these markets in August, 1928.

Industry

Industry in the Twelfth District continued active at high levels during August, 1929. Petroleum, lumber, and flour were produced in large volume. Stocks of these commodities increased substantially as compared with July and were larger than at the end of August, 1928. The mining industry, while operating at a slower pace than earlier in the year, retained a large number of workers on improvement and expansion programs. Miscellaneous manufacturing industries, such as those engaged in making automobile tires, wearing apparel, airplanes, furniture, and motion pictures were active. Evidence of a high rate of industrial output is also found in reports of full employment of labor in most parts of the District. The volume of building and construction in the District was less than a year ago, as was the number of livestock slaughtered.

Production of petroleum in California during August was slightly in excess of the record established in July and, even though refineries were exceptionally active, stocks of crude oil increased sharply. Daily average output decreased during the last week of August as compared with the earlier weeks of the month, largely because of a decline in production from the two deep zones at the Santa Fe Springs field, but increased again during the first week

of September. California's new natural gas conservation law did not become operative until August 31, and it may be some weeks, at least, before its effect upon the production of oil becomes apparent. Most of the petroleum produced in California is refined in that state and exports of crude oil are, therefore, relatively much less important than are exports of refined oils. During the first eight months of 1929 crude oil exports from the Pacific Coast were but three per cent of crude oil production, while the ratios of exports to production of all refined oils and of gasoline alone were 31 and 47 per cent respectively.

The moderate curtailment in production of lumber during July proved to be a temporary movement and output increased more than seasonally during August, reaching a level well above that of August, 1928. Both shipments and sales of lumber declined further during August and stocks at the end of the month were larger than at the end of July, 1929, or August, 1928.

This Bank's seasonally adjusted quarterly index of the value of building permits issued in twenty large cities of the District, declined during the three months ending August 31 and was lower than for the same quarter a year ago. In partial contrast with this record, an index of the value of building permits issued in seventy smaller cities of the District advanced during August, 1929, and was higher than in July, 1929, or August, 1928. Total value of engineering and construction contracts awarded in the states of the District during August was smaller than a year ago, but their value, exclusive of commercial and industrial buildings, was larger than in either the preceding month of this year or the corresponding month of last year.

Although output of the District's copper mines showed a further slight decline during August, stocks of the metal increased. Demand for copper became more active during the month, however, and reached record levels in the week ending September 4. While output of

(A) Employment—

Industries	California		Oregon	
	No. of Firms	No. of Employees	No. of Firms	No. of Employees
All Industries	665	166,900	147	28,826
		(3.0)		(-1.5)
Stone, Clay and Glass Products.	41	6,147	4	122
		(2.5)		(-52.2)
Lumber and Wood Manufactures	104	23,717	51	16,636
		(-5.0)		(2.3)
Textiles	15	1,941	10	2,356
		(3.1)		(22.1)
Clothing, Millinery and Laundering.	49	6,970	9*	500
		(6.2)		(2.5)
Food, Beverages and Tobacco	141	42,326	42	3,628
		(-9.5)		(-25.2)
Water, Light and Power	4	3,914	..	..
		(-4.0)		..
Other Industries†.	298	78,872	..	..
		(13.3)		..
Miscellaneous	13	3,013	31	5,584
		(41.0)		(1.7)

*Laundry only. †Includes the following industries; metals, machinery and conveyances; leather and rubber goods; chemicals, oils and paints, printing and paper goods. Figures in parentheses indicate percentage changes August, 1928.

(B) Industry—

Indexes of daily average production, adjusted for seasonal variations (1923-1925 daily average = 100)	1929			1928
	Aug.	July	June	
Manufactures:				
Flour	132	120	105	107
Slaughter of Livestock	84	88	81	89
Lumber	110	106	110	103
Refined Mineral Oils*	215	213	190	161
Cement	100	90	96	121
Wool Consumption . . . . .	..	80	86	75
Minerals:				
Petroleum (California)*	133	131	126	95
Copper (United States)†	119	122	125	115
Lead (United States)† . . . . .	..	120	112	108
Silver (United States)†	91	88	96	87
General:				
Carloadings—Industrial	116	118	120	113
Value of Building Permits‡				
Twenty Larger Cities	63	68	64	77
Seventy Smaller Cities	97	95	96	85
Value of Engineering Contracts Awarded‡				
Total	131	149	121	136
Excluding Buildings	150	127	101	128

*Not adjusted for seasonal variation. †Prepared by Federal Reserve Board. ‡Indexes are for three months ending on the month indicated.

copper has been declining during the past few months, a number of the larger mines of the District have been expanding or improving their production facilities. This new construction has provided work for a part of the labor released as a result of reduced operating schedules.

Reports from flour millers indicate that production of flour increased more than seasonally during August, and was larger than a year ago. Export demand was light, but domestic demand was active and millers found it desirable to replenish their stocks both of flour and of milling wheat.

Trade

Trading activity increased by approximately the seasonal amount during August and was greater than a year ago. Waterborne intercoastal and foreign commerce was larger in volume than in the previous month or in the same month of 1928. Carloadings on the District's railroads increased more than seasonally, but were fewer in number than in August, 1928. Sales at wholesale were much larger than in July and increased moderately as compared with last year. The increase in retail sales during August was not quite so large as is ordinarily recorded in that month.

This Bank's seasonally adjusted index of sales at retail declined during August but was above the figure for August, 1928. Total sales of 148 department, apparel, and furniture stores were two per cent larger than a year ago, the most important increases being recorded in Arizona and western Washington. The record of collections compared favorably with that of a year ago.

	RETAIL TRADE—Twelfth District		STOCK*
	NET SALES*		
	Aug., 1929 compared with Aug., 1928	Jan. 1 to Aug. 31, 1929 compared with Jan. 1 to Aug., 1928	
Department Stores†	2.0 (70)	2.7 (67)	-2.2 (54)
Apparel Stores.....	-1.3 (31)	2.1 (29)	2.1 (20)
Furniture Stores.....	3.9 (47)	3.7 (43)	-2.8 (26)
All Stores.....	2.0 (148)	2.8 (139)	-1.9 (100)

*Percentage increase or decrease (—). Figures in parentheses indicate number of stores reporting. †Includes dry goods stores.

Total sales of 241 wholesale firms increased more than seasonally during the month and were three per cent larger than during August, 1928. Six of the lines upon which this Bank receives data showed increases and four showed decreases over the year period.

Sales of new automobiles in the District as evidenced by registrations of new passenger cars and trucks, declined more than seasonally during August but continued in relatively large volume.

Total railroad carloadings in the District increased somewhat more than is usual during August, but were smaller than in the same month a year ago. The increase as compared with last month was the result of large shipments of logs in the lumbering areas, and of a heavier movement of grain. Loadings of fruit

were far below those of last year, a fact largely accounted for by the smaller crops being harvested this year. The seasonally adjusted index of merchandise and miscellaneous freight carloadings was lower than in August, 1928, but remained unchanged from July, 1929.

The increase in the District's intercoastal trade during August, as indicated by tonnage passing through the Panama Canal, was almost entirely due to heavier shipments of refined petroleum products to the Atlantic Coast. Eastbound shipments of lumber decreased substantially as compared with both July, 1929, and August, 1928, while the amount of general cargo shipped from Pacific to Atlantic Coast ports showed little change from the previous month and was less than a year ago. Westbound shipments were substantially larger than in August, 1928, but decreased as compared with July, 1929, chiefly because of the smaller shipments of iron and steel products in the later month.

Foreign trade of the District during the first six months of 1929 was substantially larger in volume than during the first six months of 1928. The amount of both imports and exports increased over the year period, with imports showing much the larger increase. Preliminary figures for July indicate a continuation of the trends established during the second quarter of the year, namely, a sharp increase in imports and a gradual decline in exports.

Prices

Changes in wholesale prices were not so marked during August as in June and July. A downward price tendency persisted throughout the month but the rate of decline was moderate.

(C) Distribution and Trade—

	1929			1928 Aug.
	Aug.	July	June	
Foreign Trade#	Index Numbers*			
Total†	134	134	134	131
Imports†	118	118	118	98
Exports	145	145	145	148
Intercoastal Trade#				
Total	100	93	89	88
Westbound	150	140	131	121
Eastbound	86	81	77	79
Carloadings‡				
Total	117	116	118	120
Merchandise and Miscellaneous...	115	115	116	122
Wholesale Trade°				
Sales	109	100	101	106
Retail Trade				
Automobile Sales‡				
Total	149	155	132	115
Passenger Cars	145	153	130	115
Commercial Vehicles	191	176	147	121
Department Store				
Sales‡	123	125	122	121‡
Stocks§	106	104	105	107
	Actual Figures			
Stock Turnover||	.27	.23	.24	.26
Collections¶				
Regular	45.1	45.5	48.8	44.5
Installment	15.7	15.1	13.4	16.9

*Adjusted for seasonal variations, 1923-1925 average=100. †Excluding raw silk. ‡Daily average. °Monthly totals of ten lines combined. §At end of month. ||Proportion of average stocks sold during month. ¶Per cent of collections during month to amount outstanding at first of month. #Indexes are for three months ending on month indicated. †Revised.

During the first week in September, most indexes indicated a slight rise in the general price level. Wholesale prices at the end of August were substantially above the average for June, 1929, although below the levels of July of this year and of August, 1928.

Wheat prices at Pacific Coast grain exchanges declined during early August, but have been fairly steady since that time. An active demand for the moderate supply of hay available has brought about a substantial rise in the price of that commodity. Small reductions in livestock quotations have been reported during the past month and prices for hides, which had been advancing until the first week in September, have recently shown some weakness. Prices paid growers for deciduous fruits for canning purposes have continued well above those of last year and prices of dried fruits have had a further rise. Citrus fruit prices were higher in August than in July, quotations for both oranges and lemons showing considerable advances. During the past few months orange prices have been below those of 1928 but, in view of the large crop of small-sized fruit produced this year, they have not been unsatisfactory.

Increases in stocks of crude petroleum and of refined petroleum products have been accompanied by reduced prices for these commodities in other parts of the United States, but few important declines in oil or gasoline prices have taken place in California markets since early this year. Apparently effective control of copper output has helped to maintain the price of

that metal at or slightly above 18 cents per pound (Connecticut Valley points). Prices for lumber produced in this District have not declined appreciably during the past month.

Credit Situation

Although an adequate supply of credit has been continuously available to meet the early autumn needs of the District, there has been enough of strain in the situation to encourage caution in member banks' use of funds and to keep interest rates above the level of recent years.

During the five-week period from August 14 to September 18, there was little change in the credit situation. Notwithstanding a decline in their commercial deposits, reflecting large transfers of funds out of the District and an increased demand for currency within the District, banks met the local demand for credit by increasing their loan accounts. In this they were assisted by an increase in their Government deposits (growing out of the September 16 Treasury financing), but they also increased their borrowings at the Federal Reserve Bank of San Francisco.

REPORTING MEMBER BANKS—Twelfth District (In millions of dollars)

	Condition			
	Sept. 18, 1929	Sept. 11, 1929	Aug. 14, 1929	Sept. 19, 1928
Total Loans and Investments...	1,962	1,945	1,940	1,874
Total Loans	1,373	1,364	1,352	1,247
Commercial Loans	946	943	934	881
Loans on Securities	427	421	418	366
Investments	589	581	588	627
Net Demand Deposits	774	783	781	800
Time Deposits	955	964	960	932
Borrowings from Federal Reserve Bank	74	70	54	82

(D) Bank Debits*

	August, 1929	August, 1928	First Eight Months— 1929	First Eight Months— 1928
Arizona				
Phoenix	\$ 39,565	\$ 30,187	\$ 347,732	\$ 272,596
California				
Bakersfield ...	13,452	12,257	112,302	112,202
Berkeley	22,143	22,245	169,990	175,051
Fresno	36,165	34,017	254,892	262,372
Long Beach...	62,168	54,310	513,404	437,045
Los Angeles...	1,235,288	961,522	9,773,478	8,436,008
Oakland	241,130	223,510	1,932,799	1,970,876
Pasadena	33,958	33,834	334,829	326,780
Sacramento ..	56,898	50,664	408,072	390,440
San Bernardino	11,080	9,902	91,480	85,576
San Diego ...	63,643	57,213	521,499	506,011
San Francisco.	1,451,450	1,298,210	10,972,800	12,289,604
San Jose	34,617	29,655	234,977	222,874
Santa Barbara	16,002	14,229	135,314	111,178
Stockton	29,889	28,083	227,884	234,858
Idaho				
Boise	16,532	15,871	119,297	116,861
Nevada				
Reno	13,213	11,150	101,780	76,492
Oregon				
Eugene	8,326	7,656	62,604	59,086
Portland	209,376	184,648	1,535,576†	1,396,762
Utah				
Ogden	21,459	20,467	145,835	139,041
Salt Lake City	86,431	73,216	645,456	584,973
Washington				
Bellingham ...	11,503	10,181	85,311	80,626
Everett	14,317	13,911	114,489	108,258
Ritzville	965	1,491	7,040	7,864
Seattle	291,958	244,080	2,154,787	1,948,502
Spokane	59,662	56,248	481,362	448,390
Tacoma	53,677	47,418	404,522	363,393
Yakima	14,273	13,653	109,144	101,813
Total	\$4,149,140	\$3,559,828	\$31,998,655†	\$31,265,537

*In thousands of dollars. †Includes \$7,584,000 at four banks not reporting prior to week ended May 2, 1928.

Between mid-August and mid-September, total loans of city member banks increased 21 million dollars, 12 million dollars of the increase being in commercial loans and nine million dollars in security loans. Despite relatively large purchases of the Government's September 16 offering of Certificates of Indebtedness (the banks of the District were allotted 39 million dollars of this offering), investments of reporting banks increased only one million dollars during the period under review, a rise of two million dollars in holdings of Government securities offsetting a decline of one million dollars in other security holdings. As a result of their purchases of Government paper, Government deposits held by the reporting member banks increased from nothing on September 11 to 23 million dollars on September 18 (see page 72 of this Review). Net demand deposits of these banks declined seven million dollars and their time deposits declined five million dollars during the five weeks ending September 18.

The amount of credit outstanding at the Federal Reserve Bank of San Francisco declined slightly during August but increased sharply during the first three weeks of September. On September 18, total bill and

security holdings of the Reserve Bank were 27 million dollars larger than on August 14 and 36 million dollars larger than on August 28. Rediscounts showed a net increase of 13 million dollars during the five-week period and of 27 million dollars during the three-week period, increased borrowings of city member banks more than offsetting a decline in the amount of paper discounted for country members. There was little change in the Reserve Bank holdings of United States Government securities, but its purchases of acceptances (chiefly through the System Open Market Investment Committee in the New York market) increased by 15 million dollars.

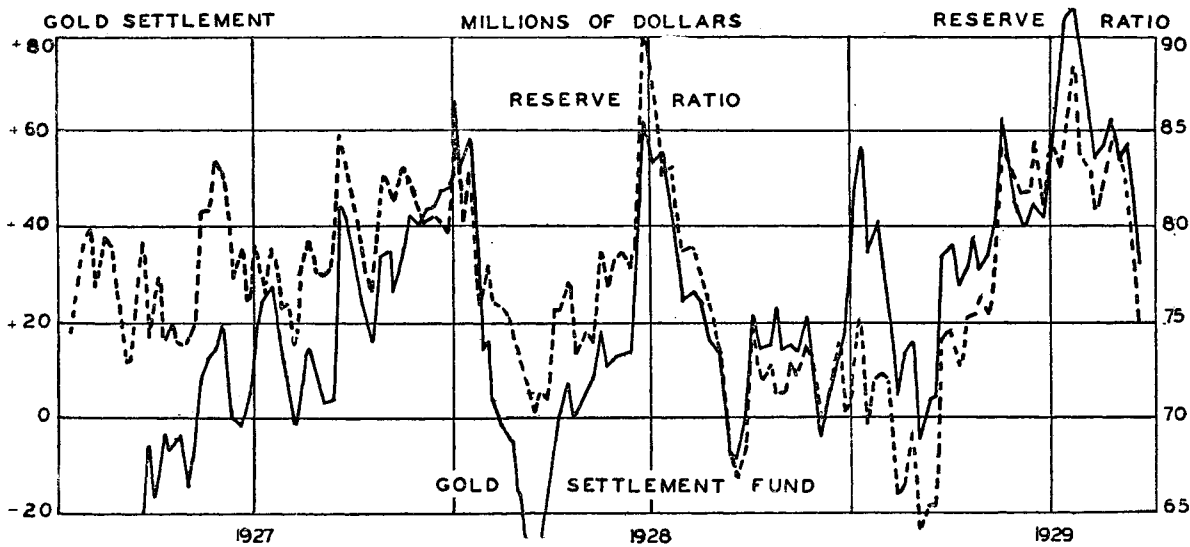
FEDERAL RESERVE BANK OF SAN FRANCISCO
(In millions of dollars)

	Condition			
	Sept. 18, 1929	Sept. 11, 1929	Aug. 14, 1929	Sept. 19, 1928
Total Bills and Securities.....	119	112	92	142
Bills Discounted	81	76	68	87
Bills Bought	25	22	10	36
United States Securities.....	13	14	13	19
Total Reserves	265	281	285	339
Total Deposits	184	187	182	192
Federal Reserve Notes in Circulation	181	184	174	171
Ratio of Primary Reserves to Combined Deposit and Note Liability	72.6	75.6	79.9	65.8

During the first two weeks of September, there was a marked increase in the District's demand for currency, chiefly due to holiday requirements. At the same time, banks were called upon to transfer a relatively large amount of funds to New York and to sustain losses to other reserve districts through check clearing transactions. In addition to increases in Government deposits and borrowings from the Reserve Bank, assistance in meeting this demand for funds was provided by the addition in this District of three and one-half million dollars to the country's stock of monetary gold and by an excess of Treasury expenditures over collec-

tions within the District amounting to nine and one-half million dollars.

Increases in Federal reserve note circulation and losses of funds to other districts through the Federal Reserve System Gold Settlement Fund have brought about a decline in the Federal Reserve Bank of San Francisco's reserve ratio from 86.3 on July 17 to 72.6 on September 18. The relationship between such losses (or gains) of funds and the ratio of primary reserves to combined deposit and note liability of this Bank is shown in the chart at the foot of the page. Gains accruing to this Bank through the Gold Settlement Fund ordinarily cause an increase in its reserve ratio and, conversely, losses cause a decrease. In last month's Review, the relationship existing between borrowings of city member banks and transfer of funds through the Gold Settlement Fund (adjusted for inter-reserve bank transfers) was indicated. The relationship was inverse—as funds moved out of the District, banks increased their borrowings, and as funds moved into the District, borrowings were reduced. When member banks borrow for the purpose of transferring funds to other districts, they do not, as a rule, merely receive a deposit credit on the books of the Reserve Bank against which a 35 per cent reserve of gold or lawful money must be maintained. Instead they withdraw, in gold, the greater part of the amount borrowed, thus reducing the reserves of the Reserve Bank. This lowers the reserve ratio, since the pertinent liabilities of the Reserve Bank (deposits and Federal reserve note circulation) are unchanged by the transaction. Similarly, when banks import funds into this District there is not, ordinarily, a proportionate increase either in deposits at the Reserve Bank or in Federal reserve note circulation, and the reserve ratio rises.



RESERVE RATIO AND GOLD SETTLEMENTS
Changes (gains or losses) in the Federal Reserve Bank of San Francisco's holdings of gold in the Federal Reserve System's Gold Settlement Fund, compared with changes in the Bank's reserve ratio (weekly figures).

Some Aspects of Government Financing and the Credit Situation

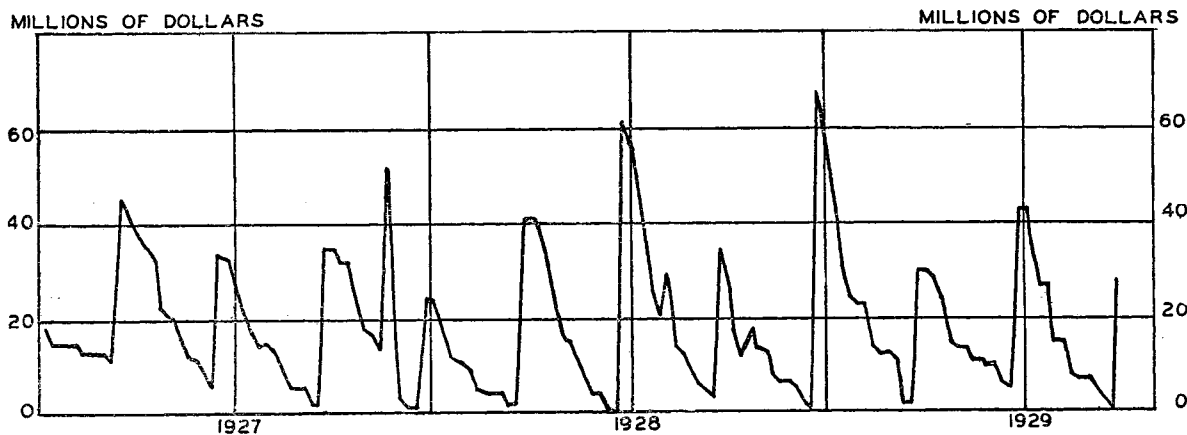
The United States Treasury recently invited subscriptions from banks and individuals to an issue of \$500,000,000 of tax-exempt 4 $\frac{7}{8}$ per cent Certificates of Indebtedness, dated September 16, 1929, and maturing June 16, 1930. Following the usual procedure when such offerings are made by the Treasury, the Federal reserve banks, as fiscal agents of the United States, were authorized to receive subscriptions to and to make allotments of this issue as directed by the Secretary of the Treasury.

The Federal Reserve Bank, as Fiscal Agent of the United States, acts as an intermediary between the Treasury and subscribing banks and individuals (who usually subscribe through a bank) in placing Government securities, collecting subscription payments, and disbursing the interest borne by the securities issued. When a bank subscribes to and receives an allotment of an issue of Government securities, it pays for them with a deposit credit, on its books, in the name of the Federal Reserve Bank of San Francisco as fiscal agent of the United States. The subscribing bank does not have to maintain a reserve against this Government deposit (the deposit is secured by placing approved collateral of like amount with the Reserve Bank) and, therefore, its subscription involves no immediate outlay of funds. In its simplest form, the transaction results in an increase in the deposits and in the Government security holdings of the subscribing bank, by the amount of its allotment. Study of the weekly condition reports of member banks in the Twelfth District, however, reveals that, when the Treasury has borrowed funds in this way during recent years, reporting member bank investments in Government securities have increased only slightly, although their Government deposits have always increased by nearly the full amount of their subscription

allotments. This indicates that the banks quickly dispose of a large part of their allotments, either to customers whose purchases they handle or in the open market. If these sales be made locally, the immediate effect on the District credit situation is a reduction in the volume of commercial deposits and a consequent reduction of reserve requirements and release of relatively small amounts of reserve funds. When, however, securities are sold outside the District the local effect is considerably greater, because such sales are reflected in inter-district settlements which make an equivalent amount of reserve funds available to banks in the District.

The deposit credits, by means of which the banks pay the Government for the securities allotted to them, are only gradually utilized by the Treasurer. After the allotment of securities has been completed, the Treasurer, through the Reserve Bank, makes a series of calls for actual payment, the amount and timing of these calls depending upon the financial needs of the Government. The payments are attended by immediate changes in the condition statements of subscribing banks. Their Government deposits are reduced, of course, and as a result of their need for funds to make the payment demanded, there may be a reduction in their investment holdings or their loan accounts, their cash or reserve balances may be reduced, or they may increase their borrowings at the Reserve Bank or at other banks.

The accompanying chart shows how the Government deposits of the District's banks are rapidly built up at mid-March, June, September, and December, when most short term Government securities are issued, and how these deposits are gradually reduced as the Treasury calls for actual payment on security subscriptions.



GOVERNMENT DEPOSITS—Twelfth District

Amounts due the United States Government's fiscal agency account from all depository banks (weekly figures).