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TWELFTH FEDERAL RESERVE DISTRICT CONDITIONS

Industrial production and employment in the Twelfth District were well maintained during November after allowance for seasonal influences. Value of building permits was unchanged, although some decline is customary at this time of year, and contract awards for public works were only moderately below the substantial total reported for October. Measures of trade expanded sharply.

In November, as in the two preceding months, Twelfth District industry shared only indirectly in the national improvement, which has been based primarily upon expansion in automobile and steel production. Local automobile assembly and tire and rubber plants have participated in the national improvement and structural steel fabricating plants have been active, but these industries are relatively much less important in this district than in the United States as a whole. Conditions in the lumber, petroleum, canning, mining, and motion picture industries largely determine the level of industrial activity in this district, although important influences frequently come from a diversified group of smaller industries. During November principal changes recorded were seasonal reductions in lumber and canning activity and a further expansion in petroleum output.

Department store sales advanced more than is customary in November and were 13 percent larger than in November 1934. Reflecting early introduction of new models, automobile sales increased in contrast with the usual seasonal decline. After a decline in October, this bank's seasonally adjusted index of freight-car loadings rose from 73 to 81 percent of the 1923-1925 average, a new high since July 1931. Intercoastal traffic was considerably lower than in October.

Largely as the result of participation in mid-December issues of Government securities, total loans and investments of Twelfth District city banks increased further in the four weeks ending December 18. Total loans were also higher, the increase, as in other recent months, taking place principally in loans other than on real estate and on securities.

Reflecting influences of a more or less temporary character, member bank reserve balances

were substantially lower in mid-December than a month earlier. For the period as a whole, there was a net outflow of funds to other districts to effect payments arising from commercial and financial transactions. Christmas trade requirements resulted in an increase in demand for currency. Both of these features contributed to a reduction in member bank reserve balances. At the same time, United States Treasury disbursements were only moderately in excess of local collections, partly because of substantial Treasury receipts from new issues of Government securities and fourth quarter income tax payments during the week ending December 18. Consequently, this usual source of supply of district banking reserves only partially offset the items tending to reduce member bank reserve balances.

Agriculture

Rainfall during November and early December and for the season to date has been less than last year and below the long time normal. The shortage of rain has delayed farm work and early growth of fall-sown crops. Ranges and pastures show the need of additional moisture in some areas, although on the whole they are in good condition. Cattle and sheep are in better condition than they have been at this season in several years.

The total volume of district farm production in 1935 appears to have been somewhat larger than output in 1934 and about the same as the average of the past five years. The United States Department of Agriculture estimated total farm income in this district during the first ten months of 1935 to be 15 percent greater than in the similar period of 1934.

The acreage seeded to winter wheat in Oregon, Washington, and Idaho is smaller this year than last because of continued dry cold weather. That part of the crop already planted has germinated slowly and is in poor condition. Reflecting unfavorable weather conditions during October and November, earlier estimates of commercial apple production have been reduced by 13 percent. According to December 1 reports, this year's indicated harvest was 26,232,000

bushels, compared with 30,040,000 bushels produced last year and an average outturn of 35,265,000 during the period 1928-1932.

Following unseasonal rains in October, frosts in early November did further damage to grapes, raisins, cotton, and winter truck crops, and delayed the maturing of citrus fruits in California. That part of the raisin grape crop still on the trays was damaged by rain in mid-November, reducing the quality materially. Output is now estimated to be about the same as last year.

Forecasts of the 1935-1936 California Navel orange crop, marketing of which did not reach substantial volume until after Thanksgiving, changed little during the month. The crop of 14,348,000 boxes is 24 percent smaller than last year's large crop, but about the same as the average of other recent years. Average f. o. b. prices advanced during the month and are now only slightly lower than those received during November 1934. Light supplies of lemons and good consumer demand in eastern markets during November were accompanied by an advance to \$4.46 per box in the average f. o. b. price. In November 1934 the comparable price received was \$2.99 per box.

Cotton production estimates for California and Arizona were reduced 9 percent during November. Output was placed at 330,000 bales, or 12 percent less than last year's production but about the same as the average during the five years 1928-1932. Practically all of the recent decline was due to freezing weather in important cotton growing counties of California in early November. About 262,000 bales or 79 percent of the crop had been ginned by December 1, whereas 83 percent of the 1934 crop had been ginned by December 1 last year.

Notwithstanding a seasonal decline, egg receipts in leading district markets were 6 percent larger in November than a year earlier and approximately 15 percent larger than the November average of the five preceding years.

Agricultural Marketing Activity—

	November		Season to Date	
	1935	1934	1935	1934
Carlot Shipments				
Deciduous Fruits	7,625	7,770	77,347	80,945
Citrus Fruits....	4,553	4,680	4,553	4,680
Vegetables	7,111	7,918	30,464	30,676
Exports				
Wheat (bu.)....	38,329	146,347	50,161	2,767,244
Barley (bu.)....	959,165	531,791	5,145,867	2,662,288
Receipts*				
Cattle	107,917	115,843	929,960	1,145,999
Hogs	120,660	223,351	1,316,860	2,083,446
Sheep	290,278	255,340	4,700,548	4,167,358
Butter (lbs.)....	4,659,618	4,999,751	68,383,699	70,320,906
Eggs (cases)....	131,095	123,406	1,806,322	1,673,369
Wheat (carlots).	4,088	4,030	39,422	29,298
Barley (carlots).	879	690	5,058	5,000
Storage Holdings*	1935		1934	
(end of month)	November	October	November	October
Wheat (bu.)....	6,185,000	6,299,000	4,905,000	5,581,000
Beans (bags)...	2,813,000	2,613,000	2,548,000	2,636,000
Butter (lbs.)....	3,415,000	5,058,000	2,530,000	3,082,000
Eggs (cases)....	139,000	349,000	119,000	293,000

*At principal district markets.

Storage supplies, while still somewhat greater on December 1 than a year ago, were reduced by considerably more than in November 1934, indicating larger consumption. Prices of eggs declined as is usual at this time of year but averaged slightly higher than last November.

Although receipts of butter in Portland, San Francisco, and Los Angeles markets were somewhat smaller during November than a year earlier, the net reduction of storage stocks was greater than usual, indicating that consumption held up fairly well. Notwithstanding the large movement out of storage during the month, stocks on December 1 were 35 percent larger than a year earlier. Prices (as measured by quotations for 92 score butter in San Francisco) continued to advance, a net increase of 4 cents having been recorded from the first of November through the middle of December.

Lack of rainfall and low temperatures during November and the first half of December retarded growth of pasturage and failed to replenish stock water, but prospects for the winter are considered fair to good. Hay and grains used for feeds are plentiful, with surpluses in some areas. Cattle are in good to excellent condition throughout the district and winter losses are expected to be light unless weather conditions are unusually severe. The number of cattle on feed for winter marketing is about 60 percent larger than in 1932, 1933, or 1934. This increase in feeding of cattle reflects the good demand for well finished beef and the abundant supplies of relatively low cost feeds. Sheep are in better condition than they have been at this season in any year since 1930. It is expected that the 1936 early lamb crop in California and Arizona will be larger than the early lamb crop in any recent year. Although the volume of lambs on feed in California is larger than in 1934, the total number on feed in the Twelfth District is slightly smaller than a year ago. Lamb prices in principal Pacific Coast markets advanced in November as is customary, and on December 1 were 45 to 60 percent higher than a year ago.

Industry

In contrast with the sharp improvement for the country as a whole, changes in Twelfth District industrial output were of approximately seasonal proportions during November. Increases in industrial measures for the United States reflected substantial expansion in production of automobiles, a result of the unusually early introduction of new models this year, and of steel. Neither the automobile nor the steel industry is of dominant importance in the Twelfth District.

Industrial employment in California and in Oregon declined approximately 7 and 13 percent, respectively, from mid-October to mid-

November, but these reductions were no larger than is usual at this time of year. In practically every major industry, employment was larger than in November 1934, and in the aggregate was 8 percent higher in California and 22 percent higher in Oregon. On a seasonally adjusted basis payrolls increased in both states during November. In California, the customary large release of workers at fruit and vegetable canneries was reported, and the number of workers at fish canneries was substantially lower than in October. Employment at automobile assembly plants more than doubled and at furniture factories was substantially higher in November than in the preceding month. Motion picture studios and laboratories employed 3 percent more wage earners than in October. In Oregon, employment in the manufacture of food, beverages, and tobacco declined sharply and was moderately lower in the lumber industry. At textile factories, however, a considerable increase took place.

Value of building permits issued during November in 20 principal district cities approximated 7½ million dollars, a figure about the same as that reported for October. Nonresidential building permits increased moderately. Declines in permits issued for residential building and for alterations and repairs appear to have been smaller than usual at this season. The aggregate value of these permits was double the figure for November 1934.

Public works contracts remained comparatively large during November, aggregating 22 million dollars. During September, October, and November, awards totaled 61 million dollars, an amount more than 25 percent larger than in the corresponding period last year. Approx-

mately half of total contracts issued in November comprised awards for storm and sewer drains in Los Angeles County, projects financed largely by the Works Progress Administration. Several large contracts were also let on projects of the Metropolitan Water District of Southern California.

Lumber production declined 12 percent in November but the reduction was no larger than usual in this month, and the seasonally adjusted index remained at 69 percent of the 1923-1925 average compared with 50 in November 1934. Increases in new orders during the last half of the month raised the total above October levels, but shipments declined from the preceding month. Both orders and shipments were somewhat below production, a circumstance largely seasonal in character. In mid-November, the terms of the Canadian Reciprocal Trade Agreement effective January 1, 1936 were announced. This agreement reduces the combined tariff and excise tax on a number of species of lumber including fir and hemlock from \$4.00 a thousand board feet to \$2.00. An annual maximum of 250 million board feet of Douglas fir and hemlock will be admitted at the reduced rate; additional imports of these species will be subject to the \$4.00 charge. Shingles are to remain on the free list but imports from Canada are limited to 25 percent of annual domestic consumption. Although the 250 million feet of Douglas fir and hemlock which will be admitted at the reduced rate is about four times larger than estimated imports during 1935, it amounts to only 5 percent of domestic production of these varieties in that year. Imports to be admitted under the reduced rates are small when compared with the volume of lumber consumed in the United States and it is probable that only a small increase in demand for lumber on the

Employment—

Industries	California		Oregon		
	No. of Firms	No. of Employees	No. of Firms	Nov. 1935	Nov. 1934
All Industries*	1,097	138,911	112	20,568	16,102
		(+7.8)		(+27.7)	
Stone, Clay, and Glass Products	49	5,581	3	155	115
		(+9.3)		(+34.8)	
Lumber and Wood Manufactures	93	13,089	37	10,436	8,008
		(+17.4)		(+30.3)	
Textiles	14	1,969	8	1,958	1,465
		(+7.2)		(+33.7)	
Clothing, Millinery, and Laundering	122	8,746	7‡	226	211
		(+7.5)		(+7.1)	
Food, Beverages, and Tobacco	245	30,229	31	3,007	1,707
		(-6.1)		(+76.2)	
Public Utilities	47	44,620	..	..	..
		(+4.6)			
Other Industries†	527	65,290	..	..	..
		(+11.6)			
Miscellaneous	47	14,007	26	4,786	4,596
		(+16.9)		(+4.1)	
Wholesale and Retail	348	49,168	..	..	..
		(+5.5)			

*Public utilities, wholesale and retail figures not included in this total. †Laundry only. ‡Includes the following industries: Metals, machinery, and conveyances; leather and rubber goods; oils and paints; printing and paper goods. Figures in parentheses indicate percentage change from November 1934.

Industry—

Indexes of daily average production, adjusted for seasonal variation (1923-1925 daily average=100)

General	1935				1934		
	Nov.	Oct.	Sept.	Aug.	Nov.	Oct.	Sept.
Carloadings—Industrial	67‡	68	72	60	50	52	52
Elec. Power Production	173‡	169‡	168	158	149	149	151
Manufactures							
Lumber	69‡	69	64	64	50	52	48
Refined Mineral Oils†	159‡	158	150	145	121	121	116
Flour	112‡	102	104	102	94	93	98
Cement	83	69	65	60	67	58	65
Wool Consumption†	128‡	193	148	159	113	94	38
Slaughter of Livestock	107‡	101‡	100	99	118	146	168
Minerals							
Petroleum (California)†	102‡	98	97	91	72	71	71
Lead (United States)‡	67	68	59	60	55	56	55
Silver (United States)‡	68	75	71	59	35	39	36
Building and Construction#							
Total	58‡	56	51	49	42	32	54
Building Permits—Value							
Larger Cities	21‡	22	24	25	13	13	10
Smaller Cities	37	35	36	33	20	18	17
Engineering Contracts Awarded—Value							
Total	99	96	82	79	76	55	111
Excluding Buildings	173	169	148	147	138	99	221

†Not adjusted for seasonal variation. ‡Prepared by Board of Governors of the Federal Reserve System. #Indexes are for three months ending with the month indicated. ¶Preliminary.

part of the construction industry alone would absorb the low-rate imports with but little effect on market prices.

Crude oil production in California averaged 676,000 barrels daily during November, or about 26,000 barrels more than in October, and increased further in the first half of December. The high rate of crude oil output has resulted in substantial additions to crude oil stocks, which are estimated by the American Petroleum Institute to have advanced at the rate of more than 60,000 barrels per day in the four months ending with November. At the end of the month, however, they were slightly lower than a year earlier.

Canning and processing of tomatoes, the major activity of fruit and vegetable canneries in November, was abruptly terminated in mid-November by damage to unharvested crops from cold stormy weather earlier in the month. Trade estimates indicate a somewhat smaller pack of tomatoes, excluding tomato products, this year than last in western states but a larger total for the country as a whole. Fish canning in California was less active in November than in October. Smaller catches of tuna and mackerel were reported, but canned output of these varieties up to the end of November is substantially higher than in the comparable period of 1934. The demand for these products has been unusually active and despite the larger pack, prices have been advanced recently. Although total deliveries of sardines to shore plants have been substantially smaller during the 1935-1936 season to date than in the corresponding period of the preceding season, output of canned sardines in California is running higher this season. The increase reflected diversion of a smaller proportion of this year's catch to reduction plants.

Output of other major district food industries increased on a seasonally adjusted basis and, with the exception of livestock slaughter was larger than in November 1934. Slaughter of

livestock increased moderately and output of flour at district mills declined much less than usual. Total refined beet and cane sugar output increased further despite seasonal declines in production of beet sugar in California.

Trade

Less than the usual seasonal decline was recorded in freight-car loadings during November. In California, loadings were sustained partly because of a late agricultural season, while reduced shipments of lumber caused somewhat more than the usual decline in the Pacific Northwest. Rail movement of merchandise and miscellaneous commodities in the district decreased less than seasonally. Total railway freight shipments were larger than in any November since 1928.

Daily average department store sales were 5 percent larger in value in November than in

RETAIL TRADE—Twelfth District Percentage changes in value of sales and stocks

	1935 compared with 1934		
	NET SALES		STOCKS
	November*	Jan. 1 to end of November	November
Department Stores	13.3 (77)	9.8	4.8 (54)
Los Angeles	13.9 (6)	10.0	2.9 (6)
Other So. California	14.7 (8)	16.7	16.6 (5)
Oakland	15.6 (5)	10.6	5.1 (5)
San Francisco	13.2 (8)	8.9	4.0 (7)
Bay Region	14.1 (18)	9.6	4.8 (16)
Central California	11.3 (5)	13.1	2.8 (5)
Portland†	13.9 (8)	10.3	7.0 (7)
Seattle	7.0 (4)	6.5	5.4 (4)
Spokane	15.3 (5)	10.5	11.6 (5)
Tacoma†	23.4 (7)	11.2	9.7 (6)
Salt Lake City	15.7 (4)	8.5	2.4 (4)
Apparel Stores	23.8 (40)	16.2	11.9 (28)
Furniture Stores	31.2 (35)	25.8	7.4 (26)
All Stores	16.3 (152)	12.2	5.8 (108)

†Includes five apparel stores each in Portland and Tacoma which are not included in district department store total. Figures in parentheses indicate number of stores reporting.

*November 1935 had the same number of trading days as November 1934.

October this year, whereas sales in the two months have usually been about the same. As a result, the seasonally adjusted index advanced from 86 percent of the 1923-1925 average to 91 percent, the highest point reached since November 1931.

Distribution and Trade—

	1935				1934		
	Nov.	Oct.	Sept.	Aug.	Nov.	Oct.	Sept.
	Indexes adjusted for seasonal variation (1923-1925 average=100)						
Carloadings‡							
Total	81¶	73	78	74	65	62	67
Merchandise	95¶	78	83	83	79	70	78
Intercoastal Trade							
Total	66	71	70	61	79	78	80
Westbound	95	102	77	100	87	94	81
Eastbound	57	61	66	51	76	71	78
Retail Trade							
Automobile Sales‡							
Total	156	83	77	97	71	71	68
Passenger	153	75	69	87	66	63	63
Commercial	188	158	157	179	124	148	124
Department Store							
Sales‡	91	86	84	82	81	78	78
Stocks§	65¶	61	63	62	62	61	63
Collections#	Actual Figures						
Regular	49.9	50.7	46.3	47.6	48.1	49.8	45.6
Installment	18.1	18.9	19.3	18.7	17.8	18.5	17.6

‡Daily average. §At end of month. #Percent of collections during month to amount outstanding at first of month. ¶Preliminary.

WHOLESALE TRADE—Twelfth District Percentage changes in value of sales

	November 1935 compared with—		Cumulative 1935 compared with 1934
	Oct. 1935	Nov. 1934	
Agricultural Implements	1.1	26.3	57.8
Automobile Supplies	3.7	30.8	11.8
Drugs	4.3	9.9	6.5
Dry Goods	4.6	22.6	6.3
Electrical Supplies	8.6	26.4	32.1
Furniture	2.8	29.7	23.9
Groceries	8.2	16.8	11.4
Hardware	1.4	37.6	16.2
Shoes	18.1	12.3	0.6
Paper and Stationery	9.9	15.0	12.8
All Lines	5.2	21.8	14.2

Sales reported by wholesalers in ten lines of trade were 5 percent smaller in November than in October. This decrease was smaller than has occurred in November of other recent years.

Total sales exceeded those of November 1934 by 22 percent, a larger year-period increase than in any other month of 1935 except July.

New automobile sales increased by about one third during November. In only two other years in the past thirteen have sales been larger in November than in October, the average recession having been about 17 percent. The increase this year reflects a change in the buying season induced by the early introduction of new model cars. New passenger car sales responded vigorously to this innovation, with registrations exceeding those in any month since July. Sales of commercial vehicles decreased much less than is usual in November. Total sales were larger than in any November on record, except November 1925.

Intercoastal water-borne tonnage decreased during November, following expansion in the four preceding months, and was smaller than in November 1934. The decrease during the month may be attributed chiefly to reduced lumber shipments from the Pacific Coast; eastbound petroleum shipments were larger than in the preceding month and movement of iron and steel from the Atlantic Coast also increased.

Prices

The wholesale commodity price index of the Bureau of Labor Statistics advanced slightly from mid-November to mid-December because of higher quotations for farm products and foods.

Retail food prices in the five largest popula-

tion centers in the Twelfth District increased somewhat during the four weeks ending December 4. Higher prices for dairy products and fruits and vegetables were chiefly responsible for this increase.

Wholesale quotations on canned and dried fruits changed little during the period under review. Most dried fruit prices are now lower than a year ago with declines ranging up to 33 percent for some fruits.

Of the nonferrous metals, quotations for copper, lead, and zinc were steady while the spot foreign price of silver declined from 65 $\frac{3}{8}$ cents per ounce on December 1, at which level it had stood for almost four months, to 51 $\frac{3}{4}$ cents on December 20. At this point it was 29 $\frac{1}{4}$ cents below the high point of the year reached on April 26 and almost 26 cents per ounce below the United States Treasury's buying price for newly mined domestic silver.

The Credit Situation

Total loans and investments of Twelfth District city member banks increased substantially during the four weeks ending December 18, largely reflecting participation of these banks in mid-December issues of United States Treasury 2 $\frac{3}{4}$ percent bonds and 1 $\frac{1}{2}$ percent notes. The total district allotment of bonds, exclusive of exchange subscriptions, amounted to \$42,754,600 and allotment of notes totaled \$32,145,000. Changes in other securities holdings were negligible during this period. Total loans continued the steady but moderate expansion perceptible since late July. Loans to brokers, which fluctuated irregularly in November, were slightly higher in mid-December than a month earlier and loans on securities to customers other than brokers continued to expand slightly. Real estate loans were practically unchanged, and all other loans, after increasing sharply in late November, were unusually steady in the subsequent three weeks. Loans in the "all other" classification, generally regarded as including principally those made for commercial and industrial purposes, have increased considerably during the past year. Preliminary figures as of November 1, 1935 show a total of \$567,099,000 of such loans by all member banks in the district, whereas the comparable total on December 31, 1934 was \$489,736,000. Practically all of this increase has taken place at banks in the eight reserve cities, the total for other banks having increased only 2 percent.

District member bank reserve balances were substantially lower in the week ending December 18 than in mid-November. For the period as a whole there was a large net outflow of funds to other districts for the accounts of banks and their customers, although during the week ending November 27 transfers into this district ex-

Bank Debits*—

	November 1935	November 1934	First 11 months 1935 1934	
Arizona				
Phoenix	\$ 34,824	\$ 26,894	\$ 327,429	\$ 276,784
California				
Bakersfield	16,536	15,223	127,895	107,464
Berkeley	17,099	15,067	170,457	197,983
Fresno	35,334	25,037	241,953	202,826
Long Beach	29,785	24,116	318,764	250,674
Los Angeles	688,619	508,250	7,202,367	5,842,911
Oakland	196,848	152,367	1,884,332	1,792,522
Pasadena	23,997	17,324	233,233	196,841
Sacramento	123,755	68,453	1,174,374	667,725
San Bernardino	7,144	6,158	79,750	62,277
San Diego	47,232	31,598	432,078	324,231
San Francisco	893,710	636,932	8,642,634	7,432,403
San Jose	23,760	18,236	217,657	185,978
Santa Barbara	11,150	8,370	106,869	89,012
Santa Rosa	4,607	3,021	42,749	33,435
Stockton	17,813	14,485	173,563	153,960
Idaho				
Boise	16,141	13,042	162,664	131,120
Nevada				
Reno	8,624	8,431	92,490	83,160
Oregon				
Eugene	5,268	3,694	53,810	43,744
Portland	145,621	116,880	1,543,401	1,345,941
Salem	11,308	11,035	139,449	123,144
Utah				
Ogden	15,916	15,782	153,579	138,887
Salt Lake City ..	60,718	51,985	587,596	524,866
Washington				
Bellingham	6,194	4,551	55,778	50,630
Everett	6,324	5,314	60,611	56,692
Seattle	169,864	132,859	1,698,662	1,499,328
Spokane	36,921	30,862	399,991	330,156
Tacoma	28,911	18,413	274,155	240,508
Walla Walla	5,391	3,882	54,216	45,329
Yakima	12,361	11,468	126,607	115,223
Total	\$2,701,775	\$1,999,729	\$26,799,113	\$22,545,754

*In thousands of dollars.

ceeded the outward movement by \$12,500,000, largely the result of a substantial transfer of funds in connection with recent corporate refunding activity on the Pacific Coast. Reflecting Christmas trade requirements demand for currency increased during the four weeks under review, a feature which tended also to reduce member bank balances at the Federal Reserve Bank of San Francisco. During the first three weeks of this period, United States Treasury disbursements in the Twelfth District were in excess of local collections. In the succeeding week, however, this relationship was reversed as a result of substantial cash payments for recently issued Government securities and third quarter income tax collections. The excess of local collections by the Treasury during this one week did not entirely offset net disbursements in the preceding three weeks, however, and Treasury operations therefore tended to restore member bank reserve balances.

For a few days early in December the Federal Reserve Bank of San Francisco extended no credit to member banks through loans on discounts, the first time in post-war years that all Twelfth District member banks have been entirely out of debt to the Reserve Bank at one time. This temporary liquidation of discounts at the Reserve Bank was of interest but not of materially greater significance than the fact that very few banks in the district have found it necessary to borrow at any time during the past year. The total volume of discounts at the Reserve Bank has, in fact, not been of substantial proportions at any time since late summer of 1933. This circumstance reflects the substantial growth of excess member bank reserves

since the banking holiday early in 1933, and their relatively wide distribution. Computed on a daily average basis, excess reserve balances of district member banks during November 1935 totaled 120 million dollars or an amount 61 percent of legal requirements. These figures restricted to district banks, are not as adequate a measure of excess funds as are similar figures for the country as a whole, because it would be possible for many district banks to transfer idle funds from eastern correspondents to their reserve deposits at the Federal Reserve Bank of San Francisco. Over the past 2½ years Twelfth District country banks have increased their balances with their city correspondents, and balances maintained by banks in local reserve cities with correspondents outside the district have been relatively larger than in previous years. Since no interest is allowed on these balances, to the extent that they are in excess of amounts necessary and convenient to provide facilities for interbank transactions, they may be withdrawn readily by local banks. In this manner reserve balances at any one time might be supplemented without reduction of earning assets. Thus the figures of excess reserves for the district understate the amount of excess funds of local member banks.

The trend of excess reserves and their distribution between district reserve city and country member banks during the first eleven months of 1935 is shown in the accompanying charts. In the "city" classification are included all member banks with head offices in San Francisco, Los Angeles, Oakland, Salt Lake City, Ogden, Portland, Seattle, and Spokane, while the "country" group includes member banks in

SOURCES AND USES OF BANKING RESERVES

Twelfth District

Changes in millions of dollars during the weeks indicated

SOURCES OF FUNDS				
Week Ending	Reserve Bank Credit	Commercial Operations	Treasury Operations	Total Supply
1935—Oct. 16.....	+ 4.3	+15.5	— 1.2	+18.6
Oct. 23.....	— 3.5	—26.3	+ 3.4	—26.4
Oct. 30.....	+ 1.5	— 9.7	+ 6.5	— 1.7
Nov. 6.....	— .6	— 1.1	+13.9	+12.2
Nov. 13.....	+ .6	— 5.9	+ 9.0	+ 3.7
Nov. 20.....	— 1.5	—13.8	+ 3.0	—12.3
Nov. 27.....	+ 2.8	+12.7	+10.2	+25.7
Dec. 4.....	— 1.9	—16.1	+ 7.3	—10.7
Dec. 11.....	— .7	—28.7	+15.6	—13.8
Dec. 18.....	+ 2.1	— 7.6	—20.4	—25.9

USES OF FUNDS

Week Ending	Demand for Currency	Member Bank Reserve Deposits	Other F.R.B. Accounts	Total Demand
1935—Oct. 16.....	— .3	+26.6	— 7.7	+18.6
Oct. 23.....	— 2.2	—23.7	— .5	—26.4
Oct. 30.....	— 1.4	+ .5	— .8	— 1.7
Nov. 6.....	+ 7.3	+ 6.1	— 1.2	+12.2
Nov. 13.....	— .3	+ 3.7	+ .3	+ 3.7
Nov. 20.....	— 3.2	— 8.9	— .2	—12.3
Nov. 27.....	+ 1.3	+25.2	— .8	+25.7
Dec. 4.....	+ 3.6	—14.5	+ .2	—10.7
Dec. 11.....	— 1.6	—11.7	— .5	—13.8
Dec. 18.....	+ 1.7	—27.7	+ .1	—25.9

FEDERAL RESERVE BANK OF SAN FRANCISCO

(In millions of dollars)

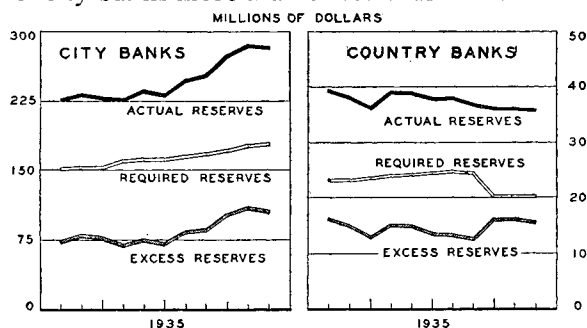
	Condition			
	Dec. 18 1935	Dec. 11 1935	Nov. 20 1935	Dec. 19 1934
Total Bills and Securities.....	201	201	201	167
Bills Discounted.....	...	...	...	...
Bills Bought.....	...	...	...	...
United States Securities..	199	199	199	166
Total Reserves.....	422	428	422	331
Total Deposits.....	326	331	332	275
Reserve Note Circulation..	280	279	273	212
Ratio—Reserves to Deposit and Note Liabilities.....	69.6%	70.1%	69.8%	68.0%

REPORTING MEMBER BANKS—Twelfth District

(In millions of dollars)

	Condition			
	Dec. 18 1935	Dec. 11 1935	Nov. 20 1935	Dec. 19 1934
Loans and Investments—Total..	2,164	2,093	2,076	1,989
Loans to Brokers and Dealers...	13	11	8	29
Loans on Securities to Others (except banks).....	170	170	168	191
Acceptances and Com'l Paper...	24	24	25	20
Loans on Real Estate.....	368	368	369	361
Loans to Banks.....	1	1	1	2
Other Loans.....	361	362	352	314
U. S. Gov. Direct Obligations..	736	675	669	679
Obligations Guaranteed by U. S. Other Securities.....	135	133	130	39
Reserve with F. R. Bank.....	356	349	354	354
Due from Domestic Banks.....	177	190	196	155
Demand Deposits—Adjusted....	225	248	240	212
Time Deposits.....	786	797	797	681
U. S. Gov. Deposits.....	1,024	1,012	989	973
Deposits of Other Banks.....	103	60	66	105
Borrowings.....	277	284	278	231

all other cities and towns. Between January and June of this year actual reserve balances maintained by both groups of banks fluctuated with but little net change. Required reserves, consequent upon an increase in total time and net demand deposits, increased moderately with a resulting slight reduction in excess reserves. During the subsequent five months, however, a substantial increase in actual reserve balances of city banks more than offset a further advance



MEMBER BANK RESERVE DEPOSITS—Twelfth District
Monthly averages of daily amounts. "City" group includes banks in eight reserve cities. "Country" group includes banks in all other cities and towns.

in minimum requirements and excess reserves of this group averaged 34 million dollars higher in November than in June. Aggregate reserve deposits of country banks continued to decline slightly during this period, and their excess reserves were reduced during July and August.

A significant change in the reserve position of country banks was brought about in the last week of August when the new method of computing net demand deposits provided in the Banking Act of 1935 became effective. That change required that member banks maintain reserves against United States Government deposits which were previously exempt from this provision, and that balances due from banks and cash items in process of collection might

be deducted from gross demand deposits, whereas earlier these items were deductible only from balances due to other banks. (If balances due from banks and collection items exceeded balances due to banks, both items were disregarded under the old method of computing deposits subject to reserve.) The effect of the revision upon the amount of deposits subject to reserve and hence upon required reserves of district city member banks was not appreciable. For country banks, however, the provision permitting balances due from banks and cash items in process of collection to be deducted from gross demand deposits resulted in a substantial decrease in reserve requirements, and excess reserves of this group were correspondingly increased, rising from 51 percent of legal requirements in August to 80 percent in September. Currently, excess reserves of country banks are proportionately much higher than total excess reserves of district city banks. In November, all country banks had reserves 76 percent above requirements, while city banks had reserves 59 percent above requirements.

Daily average share turnover on Pacific Coast stock exchanges during the latter part of November and the first three weeks of December was approximately 30 percent lower than in the middle of November but was almost twice that in September and early October. Stock price averages fluctuated irregularly but were higher than in October. Bank stocks improved considerably but advances in other groups were slight and some losses were noted.

Prices of Pacific Coast corporation bonds were fractionally higher on December 21 than a month earlier. Municipal bonds, however, were slightly weaker. Except for a few small investment trust stock issues, marketing of new Pacific Coast securities was confined to the municipal bond field. Approximately \$4,300,000 bonds of larger cities were offered.

SUMMARY OF NATIONAL CONDITIONS

Prepared by the Board of Governors of the Federal Reserve System

Industrial production and employment, which usually decline at this season, showed little change from October to November. Distribution of commodities to consumers increased more than seasonally.

Production and Employment. The Board's seasonally adjusted index of industrial production advanced from 95 percent of the 1923-1925 average in October to 97 percent in November. Output of industries producing durable goods continued to increase substantially in November, while activity in most other industries declined somewhat. Output of steel increased further during November to a higher rate than in any previous month this year

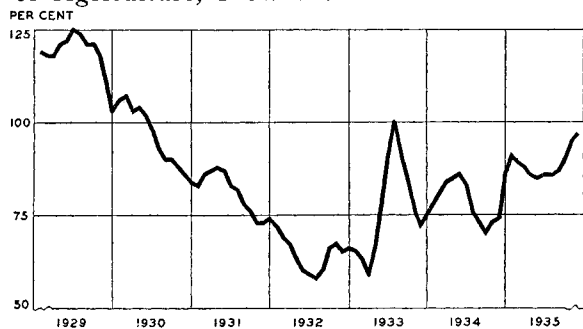
and this high level was maintained during the first three weeks of December. Automobile production in November continued the sharp increase which began after the change to new models in September. Activity at silk mills and at woolen mills declined.

Factory employment and payrolls, which usually decline from the middle of October to the middle of November, showed little change for that period this year. Increases in employment were reported for the automobile, iron and steel, machinery, railroad car, and cotton textile industries and at railroad repair shops. There were larger than seasonal declines at sawmills, shoe factories, silk and

rayon mills, and establishments producing wearing apparel.

Value of construction contracts awarded, as reported by the F. W. Dodge Corporation, continued to increase in November and the first half of December. There was a decline, largely seasonal, in residential building, while other types of construction showed an increase.

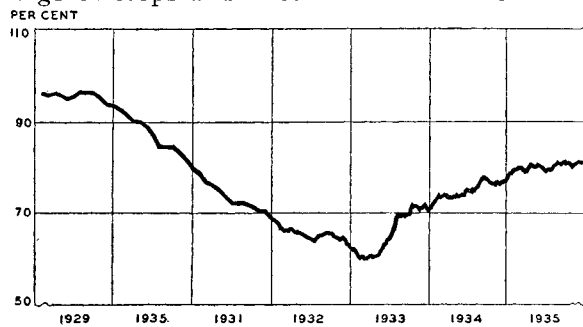
Agriculture. Crop production in 1935, according to final estimates by the Department of Agriculture, showed an increase of about



INDUSTRIAL PRODUCTION

Index of industrial production, adjusted for seasonal variation (1923-1925 average=100).

20 percent in volume over the drought year of 1934, and the farm value of 64 crops amounted to \$5,120,000,000 compared with \$4,780,000,000 last season. The cotton crop, which has been reduced in recent months by bad weather, is now estimated at 10,734,000 bales compared with the exceptionally small output of 9,636,000 bales in 1934. Cash farm income from marketings of crops and livestock and from Govern-



WHOLESALE PRICES

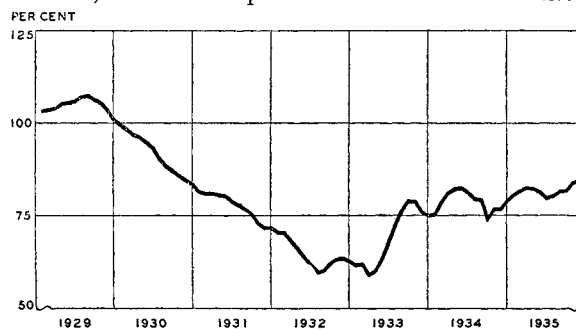
Index of United States Bureau of Labor Statistics. By months 1929 to 1931; by weeks 1932 to date. (1926=100.) Latest figure is for week ending December 14.

ment rental and benefit payments is estimated at about \$6,800,000,000 for the calendar year 1935, as compared with \$6,387,000,000 last year.

Distribution. Freight-car loadings decreased by less than the usual seasonal amount during November, reflecting principally a smaller decline in shipments of miscellaneous freight than is customary at this time of year. Value of department store sales, on a daily average basis, increased from October to November.

Commodity Prices. The general level of wholesale commodity prices, after a decline during October, increased during November and showed little change during the first two weeks of December.

Bank Credit. Excess reserves of member banks, which had increased to a new high level of \$3,310,000,000 on December 11, largely as the result of continued gold imports, declined considerably during the week ending December 18, as a consequence of seasonal demands

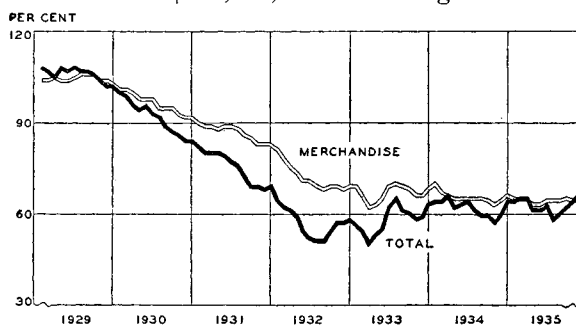


FACTORY EMPLOYMENT

Index of factory employment, adjusted for seasonal variation (1923-1925 average=100).

for currency and a large increase in Treasury balances with the Federal Reserve banks, in connection with mid-December fiscal operations.

Changes in reporting banks in 101 leading cities during the four weeks ending December 18 reflected principally the influence of new Government financing. These banks showed increases of \$310,000,000 in holdings of United



RAILROAD FREIGHT-CAR LOADINGS

Indexes of daily average number of cars loaded, adjusted for seasonal variation (1923-1925 average=100).

States Government securities, of \$110,000,000 in loans to brokers and dealers in securities, and of \$200,000,000 in United States Government deposits. Adjusted demand deposits showed a further growth of \$270,000,000 in the three weeks ending December 11 and declined by \$250,000,000 in the following week, as a result of withdrawals for holiday currency demands, income tax payments, and the purchase of new Government securities.

MONTHLY REVIEW

OF

BUSINESS CONDITIONS

Federal Reserve Agent
Federal Reserve Bank of San Francisco

Supplement

San Francisco, California, December 20, 1935

Vol. XIX No. 12

Gross Income of the Lumber Industry in the Douglas Fir Region

Gross income of the lumber and timber products industry in the Twelfth Federal Reserve District will be about twice as large in 1935 as in 1932, but only slightly more than two fifths as large as in 1929, according to estimates based upon available statistics. Improvement in income since 1932 stands out in comparison with the sharp reduction between 1929 and 1932, when gross value of lumber sales declined by more than 75 percent. During those years annual wages paid by the industry declined from nearly \$200,000,000 to less than \$50,000,000, owners incurred heavy losses, failures were numerous, and equipment purchases by the industry were sharply curtailed. During 1933, 1934, and 1935, increased sales of lumber at prices considerably above 1932 levels resulted in marked recovery in gross income, a development which directly benefited lumber company employees and owners as well as manufacturers of equipment used in the industry.

Lumber sales are the predominant source of income of the lumber and timber products industry of the Twelfth District, and changes in dollar sales of lumber therefore are roughly indicative of changes in gross income of the entire lumber and timber products industry. Income received from other sources such as sale of logs, posts, poles, hewn timbers and ties, shingles, lath, cooperage, veneer, and planing mill products is large in absolute terms, but it is small in relation to the value of lumber sales. Movements in the value of sales of lumber originating in the Douglas fir region of western Oregon and western Washington are particularly significant. Over half of the total income received from Twelfth District lumber sales originates in that region and the same general factors which have affected gross income in the Douglas fir region have operated in the other lumber sections of the district. This discussion has therefore been limited principally to a review of changes in sales of lumber produced in the Douglas fir region, but the direction and extent of changes also apply in a general way to the entire lumber and timber products industry of the Twelfth Federal Reserve District.

The estimated volume of lumber shipments from the Douglas fir region during each year since 1929 is shown on Chart 1, and the average price per thousand board feet received by mills on all lumber shipped in each of those years is shown in Chart 2. The volume of shipments from mills located in the Douglas fir region dropped 6.4 billion board feet or 64 percent between 1929 and 1932. In the construction industry, consumption of lumber cut in the Douglas fir region declined 3.8 billion board feet, and

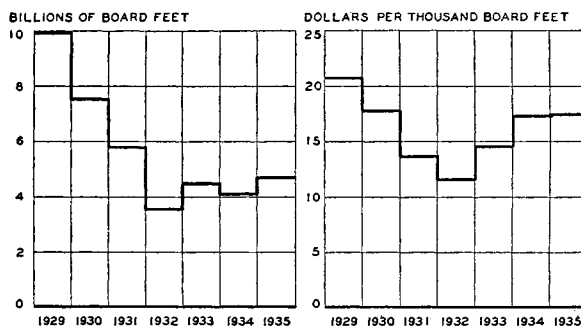


Chart I
LUMBER SHIPMENTS
Douglas fir region
Total annual lumber shipments.

Chart II
LUMBER PRICES
Douglas fir region
Average mill prices per thousand board feet.

exports of lumber from that region decreased 1.1 billion board feet, according to estimates submitted by the Special Lumber Survey Committee to the Department of Commerce. The decline in the volume of shipments was accompanied by sharp reductions in mill prices, which averaged 44 percent lower in 1932 than in 1929.

Marked increases in mill prices and in lumber shipments from the Douglas fir region started in March 1933. Mill prices during 1933 averaged \$14.55 a thousand board feet, or \$3.05 higher than in 1932, and shipments increased 25 percent to 4.5 billion board feet. The initial advances in shipments and mill prices were associated with a short lived revival in construction activity and a widespread expectation of general price increases. Retail yards also replenished their inventories of finished lumber in anticipation of further advances in the price

of lumber. At the same time, mill prices were advanced on the basis of the increased sales to retailers. Anticipation of higher labor costs under the President's Reemployment Agreement and the lumber code also contributed to price advances during the second half of 1933. October prices, most of which were at the highest level since 1930, were used in determining the minimum lumber code prices operative after November 22, 1933.

Income received by the Douglas fir industry from lumber sales continued to expand during 1934, notwithstanding the fact that shipments were about 9 percent lower in 1934 than in 1933. This decline in shipments was partly a result of a serious interruption caused by a strike of longshoremen on the Pacific Coast in May, June, and July of the later year. Mill prices during 1934 averaged \$17.23 a thousand board feet, or \$2.68 higher than in 1933. The high average of prices in 1934 was attributable to the level of quotations which prevailed during the first half of the year, because prices declined after March and were below minimum code levels during the latter part of 1934.

While the gain in income received from lumber sales by Douglas fir mills during 1933 and 1934 resulted largely from a sharp temporary expansion in mill prices and replenishment of retail inventories, the advance during 1935 resulted mainly from a well sustained increase in demand for lumber by the ultimate users. Total 1935 shipments, estimated at 4.7 billion board feet, an increase of 32 percent over the extremely low volume of 1932, reflect a substantial increase in actual consumption in the building industry. The high level of shipments was attained despite a serious interruption be-

tween May and August caused by a strike of logging and milling employees. It will be seen on Chart 3 that the year also was marked by a distinct improvement in the relationship between mill stocks and the volume of business, and that the relationship late in 1935 was more satisfactory than at any time since 1929. Moreover, it is indicated that mill prices during 1935 as a whole averaged 50 percent higher than during 1932. Average mill prices, which dropped quite sharply after the minimum code price provisions were terminated at the end of 1934,

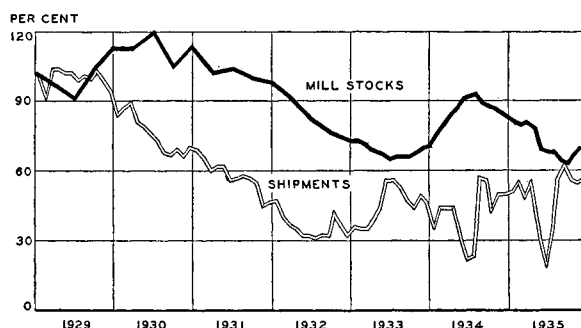


Chart III
LUMBER SHIPMENTS AND INVENTORIES
Douglas fir region
Total monthly shipments, adjusted for seasonal variation.
Total mill inventory at end of month, without adjustment
for seasonal variation (1929 averages=100).

advanced during the first ten months of 1935 and in October, the latest month for which price data are available, reached the highest point in over five years. In view of the current favorable position of the market, any further expansion in demand for lumber produced in the Douglas fir region should result directly in a further expansion in gross income.