

# MONTHLY REVIEW

OF

## BUSINESS CONDITIONS

Federal Reserve Bank of San Francisco

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### TWELFTH FEDERAL RESERVE DISTRICT CONDITIONS

#### Review of the Month

Industrial production in the Twelfth District increased considerably in December after allowance for seasonal influences. This bank's adjusted index of Douglas fir lumber production, which declined 37 percent in November because of the maritime strike, regained over half of that loss. The flour milling index, which declined sharply in November, also advanced considerably. The recovery in lumber and flour milling during December partly reflected increased movements of those products by rail. Expansion in output is reported to have continued in the furniture, automobile, and tire and tube industries, but a number of plants producing cane sugar, vegetable oils, and soap were idle during December and early January.

In the construction industry, a small advance in the value of permits issued for new private building during December resulted entirely from a gain in the non-residential classification. Seasonal influences were at least partly responsible for a 5 percent decline in the value of new residential building initiated in December. Total permits for residential buildings were about 10 percent smaller in value than in October, the peak month of 1936. A marked gain in awards for public works largely reflected increased railroad construction.

In the Pacific Northwest, the number of industrial wage earners declined no more than is customary in December and factory pay rolls were reduced less than seasonally. Employment and pay rolls in California industries declined less than seasonally for the third successive month, the adjusted employment index for December advancing to a new high level. Reports from the State Relief Administration indicate that reductions in employment resulting directly or indirectly from the maritime strike were about offset by gains in other lines, after allowance for seasonal influences.

Recovery in business in December was also

indicated by a larger than seasonal expansion in sales of department stores in practically all parts of the district. The actual increase amounted to 68 percent, compared with an ordinary seasonal gain of 60 percent.

The outlook for agricultural production during 1937 was unfavorably affected by weather conditions during December and early January. The comparatively small fall sown wheat crop was in poor condition because of lack of moisture and unusually cold weather. In California, considerable damage to vegetables and citrus fruits resulted from freezing weather. Need for supplemental feeding of livestock increased, adding to production costs, and heavy losses of new-born lambs were reported.

#### Review of the Year

The year 1936 was characterized by continued recovery in industry, private construction, agriculture, and trade, and by further expansion in loans of district banks for business and personal uses. On an annual basis, output of a number of manufactured products and industrial employment were close to the level of predepression peak years. Although production of lumber and mineral products continued well below that of previous record years, total output in all industries for which statistical data are available averaged only 14 percent lower than in 1929. Value of retail trade was nearly as large as in 1931 and the movement of freight by rail was 13 percent larger than in that year. Agricultural cash income increased to the highest total since 1930, but still was about 20 percent smaller than in 1929.

Substantial year-to-year gains were registered in practically all lines of economic activity. In industry, the largest advances occurred at plants producing durable goods and in a number of lines which had expanded more rapidly than industry as a whole in the decade preceding the depression. An advance of 20 percent in total industrial output was accom-

panied by increases of 12 percent in employment and 19 percent in pay rolls at manufacturing establishments. In 1936, as in the preceding year, particularly large gains occurred in new private building activity, the value of urban building permits for that type of construction increasing about 120 percent. Retail sales of department, apparel, and furniture stores were 13 percent larger in value in 1936 than in 1935. Sales of new automobiles in 1936 were at the highest level on record. Largely as a result of increases in prices, rather than in output, agricultural cash income rose about 14 percent to \$938,000,000 in 1936.

Reflecting expansion in the value of business transactions, such as retail and wholesale trade, wage and salary payments, payments to farmers, and trading in securities, the value of checks drawn against deposits in district banks was 18 percent larger than in 1935. The volume of bank deposits also increased substantially and the rate of deposit turnover did not change materially. As in other recent years, the principal factor contributing to the growth of deposits was the disbursement in this district of funds collected elsewhere by the Federal Government. Deposits also were augmented by further expansion in commercial and personal loans of banks and by sales to the Mint of newly mined, reclaimed, and imported gold.

### Agriculture

Income of farmers and livestock growers in the Twelfth Federal Reserve District continued to increase during 1936. Cash returns from crops, livestock, and livestock products totaled about \$938,000,000, compared with \$823,000,000 during 1935 and an average of \$821,000,000 during the five years 1929-1933. Although prices of seed, fertilizer, and feed as well as wage rates increased, there was nevertheless a considerable gain in net income. More farm equipment was purchased than in 1935, and general retail trade, including sales of new automobiles, increased considerably in rural areas. Available information indicates that expenditures for new construction and repair work on farms were also larger than in 1935. Some reduction in total indebtedness of many farmers, particularly among those borrowers who were delinquent in 1935, is also reported to have taken place. Both long-time mortgage credit and short-time production credit continued available from the Farm Credit Administration at the relatively low rates in effect in 1935. Farmers and stock growers continued to shift their borrowing to that agency.

Increased farm purchasing power stimulated manufacturing output and pay rolls not only in the Twelfth District but also in other parts

of the United States, since a considerable part of the goods purchased in farm sections of this district is manufactured in the East.

Weather conditions were favorable in most localities during 1936, and irrigation water was ample. Spring frosts reduced output of several important early deciduous fruits but warm dry weather through October increased yields of other crops and permitted harvesting of almost all production. In the aggregate, volume of crops produced was about the same in 1936 as in 1935; consequently, the entire gain in farm income came as a result of price advances.

### PRODUCTION AND FARM VALUE OF CROPS

	Twelfth District (In thousands)			Farm Value**	
	Production		1936	1935	1936
	1928-1932 Average	1935			
Wheat (bu.) . . . . .	108,807	103,388	110,215	74,375	94,448
Barley (bu.) . . . . .	40,570	48,938	41,116	19,486	24,190
Oats (bu.) . . . . .	24,648	30,035	30,261	9,975	13,467
Corn (bu.) . . . . .	8,090	6,966	7,178	5,536	7,177
Cotton (bales) . . . . .	328	374	610	22,532	38,260
Beans (bags) . . . . .	4,944	5,277	5,381	17,034	25,111
Tame Hay (tons) . . . . .	11,844	11,631	11,945	90,042	109,591
Hops (pounds) . . . . .	28,011	47,746	23,310	4,141	6,380
Potatoes (bu.) . . . . .	45,367	50,306	52,981	29,512	55,150
Rice (bu.) . . . . .	7,442	6,732	9,548	5,857	8,307
Sugar Beets (tons) . . . . .	1,930	2,511	3,174	13,910	19,107
Apples (bu.) . . . . .	54,748	50,664	44,767	29,086	34,381
Apricots (tons) . . . . .	227	216	223	9,850	8,374
Cherries (tons) . . . . .	50	48	59	4,785	5,103
Grapes (tons)* . . . . .	1,924	2,194	1,699	28,344	32,633
Raisin . . . . .	1,161	1,248	907	16,385	16,048
Table . . . . .	345	375	324	5,250	8,485
Wine . . . . .	418	571	468	6,709	8,096
Peaches (bu.)* . . . . .	23,844	17,876	21,627	11,512	14,013
Clingstone . . . . .	15,610	12,001	14,251	7,776	9,234
Freestone . . . . .	8,234	5,875	7,376	3,736	4,779
Pears (bu.) . . . . .	16,178	15,330	18,995	9,152	12,213
Plums (tons) . . . . .	133	117	128	3,619	3,610
Prunes (tons) . . . . .	226	298	177	17,172	13,815
Almonds (tons) . . . . .	12	9	7	2,604	2,854
Walnuts (tons) . . . . .	35	55	43	11,240	8,445
Grapefruit (boxes) . . . . .	1,617	3,407	4,067	3,221	4,302
Lemons (boxes) . . . . .	7,251	10,506	7,787	15,153	24,763
Oranges (boxes)* . . . . .	33,022	46,086	33,049	54,367	53,584
Navel & Misc. . . . .	15,600	18,990	14,469	21,425	19,040
Valencia . . . . .	17,422	27,096	18,580	32,942	34,544

\*\*Farm value refers to estimated value of production in the year, as determined by using prices prevailing during the season. Estimated farm value of production during a given year differs from cash income received from crops marketed during the same period, because part of each season's production is not sold until after the end of the calendar year. \*California only.

Citrus year ends on November 1 of years shown.  
Source: United States Department of Agriculture.

Part of the advance in prices of farm products resulted from widespread increases in purchasing power with accompanying expansion in demand for farm products. A considerable part of the price rise, however, reflected shortages of total United States production of certain crops due to the drought in the Middle West. Furthermore, foreign demand improved considerably, stimulated by increased purchasing power abroad and by decreases in trade barriers through the reciprocal trade agreement program and otherwise.

The livestock industry continued to benefit from the marked improvement in conditions noted in 1935, and cash income from sales of livestock and livestock products totaled about \$425,000,000 compared with \$386,000,000 in

1935. The number of cattle marketed from Twelfth District states was 12 percent larger than in 1935 and hog marketings increased 25 percent, while sheep and lamb marketings were about 12 percent smaller. Prices of the three kinds of meat animals averaged slightly higher than in 1935 and were about double those of 1932, 1933, and 1934. The wool clip was about the same in amount in 1936 as in 1935, but returns were 25 percent larger in 1936.

Over 40 per cent of the total income received by the livestock industry is derived from the sale of dairy products. Gains in consumer purchasing power during 1936 were accompanied by increased use of ice cream, fluid milk, evaporated milk, and other dairy products at higher average prices than in 1935. Creameries located in the Twelfth District produced about the same quantity of butter as in 1935, and prices, which averaged 12 percent higher than in 1935, were above quotations in any year since 1930.

Egg producers in the Twelfth District shared in the increased agricultural income during 1936. Total production for the year exceeded that of 1935 by 15 percent. Prices averaged slightly lower, however, and gross income of producers is estimated to have increased by about 10 percent. Net income increased by a smaller percentage, there having been an advance in production costs, especially for feed in the last few months of the year. Consumption of eggs in leading cities of the district was slightly larger than in 1935, and for the first time since 1930 shipments of eggs to eastern markets were larger than in the previous year.

In the Pacific Northwest, a small increase in total crop output during 1936 was accompanied by a 30 percent advance in value. Grain crops, which provide a major source of income in that area, were 6 percent larger in volume and 32 percent larger in value than in 1935. Notwithstanding a 14 percent decline in production of apples, the crop was valued at \$30,000,000 compared with \$25,000,000 in 1935. The marked advance in prices responsible for this gain in value reflected chiefly a small total United States apple crop. Production of pears reached record levels in the Pacific Northwest in 1936 due to increases in bearing acreage and in average yield per tree. Farm value of the crop advanced 36 percent to over \$6,000,000. Markedly higher prices for potatoes, hops, and beans were chiefly responsible for a gain of 35 percent in the farm value of field crops. Growing of vegetables has become an increasingly important source of income in Oregon, Washington, and Idaho during recent years. The total value of all commercial truck crops raised in those states for shipment and manufacture was \$9,254,000 in 1936, compared with \$7,725,000 the year before. Crops such as can-

ning peas, beans, and beets have contributed largely to the expansion in acreage and production. Additional new canneries have been built and facilities of existing plants have been enlarged to process these commodities. Sales of livestock and livestock products were 13 percent larger than in 1935.

The total volume of crops produced in California was slightly smaller in 1936 than in 1935 but larger than in any other year. The decline from 1935 was a result entirely of smaller citrus and deciduous fruit crops. Markedly higher prices for many products resulted in a 23 percent gain in value of all crops produced in the State.

The acreage planted to vegetables and the tonnage harvested in 1936 were the largest in the history of California. These crops, valued at the record amount of \$88,890,000, were worth 21 percent more than in 1935. Grain and field crops were grown and harvested under favorable conditions, and their farm value was estimated to be \$176,187,000. This amount is 42 percent above the 1935 value and higher than in any year since 1929. Higher prices received for most fruit and nut crops more than offset the smaller tonnage harvested, and the value increased 7 percent to \$178,870,000. Value of the citrus crop increased 13 percent notwithstanding a 25 percent decline in production. The record 1935 citrus crop brought growers extremely low returns per box, while the reverse was true in 1936. The livestock and livestock products industry has been the source of almost half the income of California agriculturalists in recent years. Cash income from that industry during 1936 was \$205,000,000 an amount 6 percent larger than in 1935, and 23 per cent above average income during the five years 1930-1934.

Crop production in Arizona, Nevada, and Utah increased during 1936 and value advanced about 14 percent from 1935. Receipts from the sale of livestock and livestock products, which usually account for more than 60 percent of agricultural income in these three states, were about the same as in 1935.

### Industry

In the Twelfth District, industrial output and employment and private construction activity averaged considerably higher in 1936 than in 1935. Most measures showed large gains over the 1935 average at the beginning of 1936 and advanced further during the year, reaching high levels in the fall. The upsurge of industrial production recorded for the country as a whole during the last two months of the year was felt in most industries in this district, although the gains were largely offset by the retarding influence of the maritime strike. On

an annual basis, industrial output and employment were higher than in any year since 1929, and the monthly average value of private building initiated was almost as large as in late 1930.

Probably the most significant gains in 1936 occurred in the construction industry. For the second successive year, expansion occurred principally in the construction of new residences. Value of residential building permits issued increased 135 percent to \$71,000,000 in 1936 in 20 cities, for which comparable data are available over a period of years. It is estimated that the total value of urban residential construction exceeded \$110,000,000. An increase of \$35,800,000 during the first 11 months of 1936 in the amount of mortgage loans insured under the Federal Housing Act indicates the large and growing importance of that type of financing for building in this district. Partly reflecting industrial plant expansion, the value of private nonresidential permits was nearly twice as large as in 1935. Total value of permits for new private building in the 20 cities for which sufficient data are available, however, still was little more than one-fourth as large as in the peak year of 1923. Public works contract awards, which have averaged \$200,000,000 in the past seven years, totaled \$240,000,000.

The number of workers engaged in manufacturing occupations in the three Pacific Coast states averaged 12 percent higher than in 1935. A larger year-to-year gain in industrial pay rolls, amounting to 19 percent, reflected increases in both the average number of hours worked per week and in average wage rates. The expansion in 1936 carried industrial employment to a level within 6 percent of the 1929 average, but industrial pay rolls still averaged 25 percent below the pre-depression peak. Classified figures, available for California, indicate that among the industries in which particularly large year-to-year gains were recorded were those producing aircraft, tin cans and other tinware, tires and other rubber products, agricultural implements, and stone, clay, and glass products.

In 1936, as in the three preceding years, outstanding year-to-year gains in industrial output occurred in the building materials and nonferrous metals industries. In these lines, however, activity still was considerably lower than the record highs reached before the depression. Further advances in 1936 carried output to new high levels in a number of industries which had grown unusually rapidly before the depression. Increased output in the canning and packing and container industries largely reflected record packs of a number of food products. In most other food industries, where output fluctuates irregularly within a

comparatively narrow range, volume of production was about the same in 1936 as in 1935.

Among the industries showing particularly large gains in output in 1936 were those producing building materials, such as lumber, cement, and steel. Total lumber production increased 26 percent, substantial gains occurring in the western pine, Douglas fir, and California redwood regions. Demand for lumber continued to increase and prices advanced about 9 percent during the year. An advance of 82 percent in output at district cement mills reflected increased consumption on large engineering projects such as the Grand Coulee Dam and the Los Angeles Metropolitan Water project. Steel plants are reported to have advanced their schedules substantially and to have operated at near capacity levels throughout the year. Notwithstanding large gains in the past few years, lumber output averaged 30 percent below the record level of 1926.

Largely reflecting increased prices, production of nonferrous metals increased substantially in 1936. The average price of newly mined domestic silver, as established by the Secretary of the Treasury under the Silver Purchase Act, increased from 71.875 cents an ounce to 77 cents. Prices advanced from 8.3 cents to 9.2 cents a pound for copper, from 4.0 cents to 4.6 cents a pound for lead, and from 4.4 cents to 4.9 cents a pound for zinc. Nearly all of the advance in output occurred at mines which have been active almost continuously in recent years, but a number of old mines were rehabilitated and production at newly discovered properties increased. It will be seen in the accompanying tabulation that output of most nonferrous metals still was substantially smaller in 1936 than in previous record years.

MINE PRODUCTION OF NONFERROUS METALS  
Twelfth Federal Reserve District

(000 omitted)

(Gold and silver in fine ounces, other metals in tons)

	Pre-depression Year	High Production	Production	
			1935	1936
Gold .....	1852	3,933	1,653	2,020
Silver .....	1923	48,652	31,747	39,779
Copper .....	1929	665	243	406
Lead .....	1927	322	164	182
Zinc .....	1929	108	81	151

In the paper and pulp, motion picture, motor vehicle, and aircraft industries, production advanced further in 1936 to new record high levels. Output of tires and tubes and furniture increased sharply, and tire production was about as large as in 1929. Aircraft production, which in 1935 was about 40 percent larger in value than in 1929, is reported to have advanced substantially further in 1936. All of these lines grew more rapidly than industry as a whole during the decade preceding 1930. Their growth was checked during the depression,

but as early as 1933 resumption of expansion became evident in some of them. Additional productive capacity in nearly all of these more rapidly growing industries as well as in a number of others was provided in an increasing amount during 1936. In some cases new plants have been established and in many lines additions and improvements to existing facilities have been made. Production estimates for some of the district's rapidly expanding industries in 1935 and 1936 in relation to 1929 are shown in the following table:

**ESTIMATED VOLUME OF INDUSTRIAL OUTPUT**  
(1929=100 percent)

	1935	1936
Paper .....	104	120
Wood pulp .....	131	150
Automobile assemblies .....	92	112
Motion pictures (cost) .....	128	138

Crude oil production, which in the opening month of the year had risen to the highest figure in nearly six years, was reduced substantially in February under a voluntary curtailment program. The reduction was accompanied by an advance of 20 cents in the posted price of crude oil to \$1.10 per barrel. Although output, averaging 587,000 barrels daily during 1936, was slightly larger than in 1935, refinery stocks declined 12 percent. An increase of 11 percent in gasoline production was accompanied by an expansion in demand. After moving irregularly during the first few months of the year gasoline prices were stabilized at the August 1935 level.

The canning industry was considerably more active than in 1935, and the pack of a number of food products was larger than in any previous year. In California, output of canned vegetables increased 23 percent to a new high total of 16,429,000 cases, reflecting

**Industry—**

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

	1936				1935	
	Year's Av.	Dec.	Nov.	Oct.	Dec.	Year's Av.
<b>General</b>						
Carloadings—Industrial .....	70	85	71	77	68	56
Electric Power Production...	182	192	187	189	173	161
<b>Manufactures</b>						
Lumber .....	78	83¶	66	88	82	62
Refined Mineral Oils†.....	154	155	151	154	157	140
Flour .....	109	89	75	99	109	113
Cement .....	114	150	138	114	112	64
Wool Consumption†.....	94¶	74¶	102	68	89	116
Slaughter of Livestock.....	112	126	117	114	102	99
<b>Minerals</b>						
Petroleum (California)†.....	89	88	88	88	103	86
Lead (United States)‡.....	..	..	74	71	70	59
Silver (United States)‡.....	..	..	99	119	68	60
<b>Building and Construction§</b>						
Total .....	69	78	75	72	69	48
Building Permits—Value						
Larger Cities .....	37	43	44	45	24	21
Smaller Cities .....	58	71	69	65	38	30
Engineering Contracts						
Awarded—Value						
Total .....	109	107	101	99	118	81
Excluding Buildings....	195	178	160	168	217	151

†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.

record packs of tomatoes and tomato products. A slight increase in the canned fruit pack to 17,133,000 cases made the 1936 output the largest since 1930. In the Pacific Northwest, the pack of canned peas, which advanced from negligible proportions prior to 1933 to nearly 2,000,000 cases in 1935, increased nearly 60 percent further in 1936. Reflecting a record pack of salmon in Alaska, the total salmon pack amounted to 8,983,000 cases, an increase of 49 percent over the short 1935 total and of 5 percent over the previous record reached in 1917. The pack of canned fish, while slightly smaller than in 1935, was larger than in any other year. There was some expansion of canning facilities, particularly for tomatoes and peas, during the year.

**Trade**

Trade activity increased steadily during 1936. Value of retail and wholesale trade continued the expansion in progress since 1933, and number of new automobiles sold was larger than in 1929. Movement of goods by rail was larger than in any year since 1930, partly reflecting heavy traffic during November and December as a result of the maritime strike. Despite marked declines in foreign trade during November and December because of the maritime strike, exports of merchandise from Pacific Coast ports was only 5 percent smaller in value

**Bank Debits\*—**

	Dec. 1936	Dec. 1935	Twelve months—	
			1936	1935
Arizona				
Phoenix .....	\$ 48,918	\$ 36,747	\$ 436,426	\$ 364,176
California				
Bakersfield .....	24,197	16,757	192,061	144,652
Berkeley .....	21,645	17,437	221,872	187,894
Fresno .....	34,375	32,438	321,700	274,391
Long Beach .....	40,637	34,916	407,394	353,680
Los Angeles.....	1,056,827	818,651	10,216,206	8,021,018
Oakland .....	124,260	82,592	1,118,211	849,573
Pasadena .....	30,017	25,113	297,046	258,346
Sacramento .....	124,825	104,834	1,198,928	1,279,208
San Bernardino..	12,822	8,526	114,237	88,276
San Diego .....	62,121	47,902	574,139	499,980
San Francisco...	1,075,791	925,225	10,637,827	9,567,859
San Jose .....	25,225	22,725	275,981	240,382
Santa Barbara...	13,768	12,881	142,885	119,750
Santa Rosa.....	5,608	4,640	57,330	47,389
Stockton .....	23,589	17,570	232,441	191,133
Idaho				
Boise .....	20,961	16,705	202,108	179,369
Nevada				
Reno .....	12,940	11,048	120,712	103,538
Oregon				
Eugene .....	7,853	5,903	76,610	59,713
Portland .....	187,596	156,167	1,953,739	1,699,568
Salem .....	15,875	12,310	171,340	142,074
Utah				
Ogden .....	18,914	15,883	182,168	169,462
Salt Lake City..	90,847	70,371	770,152	657,967
Washington				
Bellingham .....	6,561	5,847	72,847	61,625
Everett .....	9,507	7,339	88,794	67,950
Seattle .....	226,969	181,801	2,315,849	1,880,463
Spokane .....	54,293	44,590	537,754	444,581
Tacoma .....	36,249	29,508	388,817	303,663
Walla Walla ...	6,310	4,951	67,156	59,167
Yakima .....	17,007	11,932	160,930	138,539
<b>Total .....</b>	<b>\$3,436,507</b>	<b>\$2,783,309</b>	<b>\$33,553,660</b>	<b>\$28,455,386</b>

\*In thousands of dollars.

during 1936 than in 1935, while imports, excluding raw silk, were 5 percent larger.

Retail sales of department, apparel, and furniture stores were 13 percent larger in value in 1936 than in 1935, an increase somewhat greater than the annual gains in 1935 and 1934.

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

	—1936 compared with 1935—		
	NET SALES		STOCKS
	December*	Jan. 1 to end of December	End of December
Department Stores.....	15.8 ( 81)	10.6	3.6 ( 51)
Los Angeles.....	18.0 ( 6)	11.3	3.9 ( 6)
Cther So. California.....	18.1 ( 9)	8.2	12.5 ( 6)
Oakland.....	13.5 ( 5)	10.3	1.7 ( 4)
San Francisco.....	14.3 ( 8)	10.3	— 2.8 ( 7)
Bay Region.....	14.0 ( 18)	10.2	— 1.2 ( 15)
Central California... ..	15.4 ( 5)	7.3	0.7 ( 4)
Portland†.....	17.3 ( 9)	16.0	6.6 ( 6)
Seattle.....	14.8 ( 5)	11.2	11.2 ( 4)
Spokane.....	12.4 ( 6)	11.3	8.4 ( 5)
Tacoma†.....	14.4 ( 7)	10.8	12.6 ( 4)
Salt Lake City.....	8.9 ( 4)	6.3	10.3 ( 4)
Apparel Stores.....	21.0 ( 41)	16.7	10.7 ( 26)
Furniture Stores.....	24.9 ( 32)	25.6	22.9 ( 22)
All Stores.....	17.2 (154)	13.0	7.0 ( 99)

†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. \*December 1936 had one more trading day than December, 1935.

No adequate measure of retail prices is available, but reports indicate that average prices of goods sold by department stores were only slightly higher than in 1935. In addition to the general expansion in purchasing power through larger wage, salary, and ordinary income payments, sales were stimulated noticeably by payment of the veterans' bonus and, in November and especially December, by extra dividend payments and wage bonuses. After having advanced 27 percent in 1935, value of sales of furniture stores advanced 26 percent in 1936. The increase accompanied widespread gains in home building and modernization.

Notwithstanding continuation of the maritime strike, Twelfth District Christmas de-

partment store sales increased considerably more than seasonally and were larger in value than in any December since 1930. Decreased purchases by those directly affected by the strike did not influence total sales materially, inasmuch as sales to that group is usually small relative to total department store sales.

Sales of new automobiles in 1936 were at the highest level on record. Total number of cars sold during 1936 was 32 percent larger than in 1935, sales of passenger cars increasing 34 percent and of trucks 21 percent.

**WHOLESALE TRADE—Twelfth District**  
Percentage changes in value of sales

	December 1936 compared with—		Cumulative 1936 compared with 1935
	Nov. 1936	Dec. 1935	
Automobile Supplies.....	—19.7	18.2	13.2
Drugs.....	1.9	15.5	12.6
Dry Goods.....	—23.0	15.4	6.6
Electrical Supplies.....	27.1	36.1	33.6
Furniture.....	15.4	54.6	0.6
Groceries.....	2.7	14.4	8.8
Hardware.....	7.4	21.8	22.4
Shoes.....	—13.4	13.5	15.4
Paper and Stationery.....	7.7	14.1	12.4
All Lines.....	3.4	20.4	15.0

Movement of freight on Twelfth District railroads increased 18 percent during 1936, a greater yearly gain than in any period since 1919. The seasonally adjusted index of freight carloadings advanced irregularly from 84 percent of the 1923-1925 average at the beginning of the year to 101 percent in December. The gain was due mainly to the increase in industrial activity, although in the last two months of the year considerable freight was diverted from water to rail shipments by the maritime strike. Shipments by rail from California advanced slightly more than did shipments from the Pacific Northwest. Industrial loadings from both areas were 25 percent higher in 1936 than in 1935, while merchandise and miscellaneous loadings increased 14 percent.

Intercoastal water-borne traffic decreased 2 percent during 1936. In the first ten months, shipments from the Atlantic Coast advanced 26 percent and eastbound cargoes increased 7 percent. Petroleum shipments from Pacific Coast ports, which constituted about 23 percent of total eastbound traffic in 1935, declined somewhat in the first ten months of 1936. Other eastbound cargoes however, advanced 14 percent. Sharp curtailment in intercoastal traffic in November and complete stoppage in December resulted from the maritime strike.

### The Credit Situation

Outstanding among banking developments in the Twelfth Federal Reserve District during 1936 was the substantial further growth in deposits. Time accounts of member banks increased \$19,800,000 to \$2,025,000,000 and

### Distribution and Trade—

	Indexes adjusted for seasonal variation (1923-1925 average=100)					
	1936				1935	
	Year's Av.	Dec.	Nov.	Oct.	Dec.	Year's Av.
Carloadings‡						
Total.....	85	101	90	86	85	72
Merchandise.....	97	113	105	93	98	85
Intercoastal Trade						
Total.....	65	0	27	75	69	66
Westbound.....	98	0	24	97	89	90
Eastbound.....	55	0	28	66	65	59
Retail Trade						
Automobile Sales‡†						
Total.....	137	177¶	109	93	129	104
Passenger.....	130	177¶	108	84	124	97
Commercial.....	216	179¶	114	189	183	179
Department Store						
Sales‡.....	93	100	95	95	90	85
Stocks§.....	65	66	68	65	64	62
Collections#						
Regular.....	49.6	50.6	49.4	52.1	49.3	48.2
Installment.....	17.9	17.3	17.6	17.7	17.7	18.1

‡Daily average. §At end of month. #Percent of collections during month to amount outstanding at first of month. ¶Preliminary. †Not adjusted for seasonal variation.

demand deposits increased \$418,000,000 to \$2,059,000,000. At the close of the year both classes of deposits considerably exceeded any previous levels.

The expansion in demand deposits, which constitute the principal purchasing medium in the district, was accompanied by a somewhat comparable increase in the volume of checks drawn against them or, in other words, the rate of turnover of those deposits changed little. Based upon data for city banks, the percentage increases in demand deposits and in checks drawn against such accounts were approximately identical from the fall of 1934 to early 1936. In the spring and summer of 1936 the volume of checks debited tended to level off but subsequently increased considerably.

One of the principal factors contributing to the growth in bank deposits during 1936 was an increase of \$226,000,000 in total loans and investments of district member banks. Loans in the "all other" classification, which consists principally of advances to customers for commercial, industrial, and agricultural purposes but also includes personal installment loans and Federal Housing Administration loans for home modernization, advanced slightly more than \$114,000,000. In 1935 loans of that type increased \$102,000,000. Loans secured by real estate expanded \$23,000,000 during 1936, the net change occurring at banks located outside the principal cities. The expansion in real estate loans came entirely in advances secured by nonagricultural property and resulted to a considerable extent from loans for new home

construction. Loan repayments at banks in the leading cities were about equal to new advances for construction and purchase of existing properties. Loans secured by stocks and bonds were practically unchanged over the year period. Total investments advanced about \$85,000,000, increases amounting to \$15,000,000 in United States Government direct obligations, \$43,000,000 in obligations fully guaranteed by the United States Government, and \$27,000,000 in all other securities.

A second principal factor affecting deposits in the district was the continued local disbursement by the United States Treasury of much larger sums than were collected from this region. Government disbursements go principally to individuals, partnerships, and corporations and are ultimately deposited in banks, thus tending to increase deposits. Government collections, on the other hand, include tax payments from individuals and businesses and also payments for securities and repayments for loans which, unless they originate with banks, tend to decrease deposits. Total collections by the United States Government in the Twelfth District have not been sufficient to meet local disbursements of the Treasury in recent years. It has thus been necessary for the Treasury to transfer into this district large amounts collected from taxes and sales of securities in other parts of the United States, principally New York, to help meet various local expenditures. Disbursement of those funds to individuals and businesses has been by far the largest factor increasing district bank deposits in the past few years. During 1936, Treasury disbursements exceeded collections in the Twelfth District by \$454,000,000, exclusive of payments for newly mined, scrap, and imported gold, which totaled \$144,000,000 and which also tended to increase deposits.

In addition to payments for normal and recovery activities, Treasury disbursements during 1936 included payment of the soldiers' "bonus". Approximately 3,320,000 bonds (each having a value of \$50) were distributed to 308,000 veterans in the Twelfth District in exchange for their adjusted service certificates. Actual payments of funds to veterans for odd amounts of less than \$50 and for bonds which they elected to cash approximated \$159,000,000.

Expansion in bank deposits during 1936 because of the increases in loans and investments and the net Treasury disbursements was partly offset by several factors tending to reduce deposits. Withdrawals of currency from banks for circulation totaled \$38,000,000, net, during the year, and payments to other districts arising from commercial and financial transactions were \$359,000,000 larger than payments received in this district from other areas. Factors

#### 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
1936—	Nov. 18.....	+ .2	- 1.9	- 1.1	- 2.8
	Nov. 25.....	- 3.7	- 5.3	+ 4.9	- 4.1
	Dec. 2.....	+ 4.6	- .1	+10.8	+15.3
	Dec. 9.....	- 3.4	+ 9.7	+12.1	+18.4
	Dec. 16.....	+ 7.1	-15.6	-18.6	-27.1
	Dec. 23.....	+ 1.3	+23.8	+ 8.9	+34.0
	Dec. 30.....	+ 2.3	- 2.8	- .5	- 1.0
1937—	Jan. 6.....	- 8.1	-18.8	+ 6.7	-20.2
	Jan. 13.....	+ 1.2	-10.9	+ 3.5	- 6.2
	Jan. 20.....	+ .7	- 5.0	- 4.3	- 8.6

#### USES OF FUNDS

	Week Ending	Demand for Currency	Member Bank Reserve Deposits	Other F.R.B. Accounts	Total Demand
1936—	Nov. 18.....	- 5.2	+ 4.5	- 2.1	- 2.8
	Nov. 25.....	- .9	- 3.6	+ .4	- 4.1
	Dec. 2.....	+ 3.2	+12.2	- .1	+15.3
	Dec. 9.....	+ .7	+16.5	+ 1.2	+18.4
	Dec. 16.....	- .8	-24.9	+ 1.4	-27.1
	Dec. 23.....	+ 6.1	+ 3.4	+24.5	+34.0
	Dec. 30.....	- 9.9	+ 9.1	- .2	- 1.0
1937—	Jan. 6.....	- 1.7	+ 7.7	-26.2	-20.2
	Jan. 13.....	-12.8	+ 3.3	+ 3.3	- 6.2
	Jan. 20.....	- 3.3	- 4.2	- 1.1	- 8.6

which cause transfers of funds from the Twelfth District to eastern districts include purchases of manufactured commodities such as automobiles, steel, machinery, apparel, and many other articles; payment of insurance premiums and interest on loans made by insurance companies; dividend payments; and purchases of securities. On the other hand, Twelfth District business concerns and individuals receive large payments for raw materials, manufactured products, and agricultural products, which they sell in other regions, as well as payment of dividends, loans, etc., from outside points. Detailed statistical data on the balance of payments between the Twelfth District and other regions are not available, but the net result of all interdistrict transfers for commercial and financial purposes during 1936 was an outflow of \$359,000,000, and payment of that net amount tended to decrease bank deposits in this region.

Throughout the year local banks held idle funds in substantial volume. These funds, which were in the form of excess reserve balances at the Federal Reserve Bank of San Francisco or of correspondent balances in excess of operating requirements, were widely distributed among member banks of the district. Consequently, most banks met the 50 percent increase in reserve requirements, ordered by the Board of Governors of the Federal Reserve System effective August 15, without borrowing from the Reserve Bank or disposing of earning assets. This increase in required reserves immediately reduced excess reserves by about \$110,000,000, lowering the excess balances from an average of 88 percent of required reserves in the first half of August to 32 percent in the last half of the month. From September through December additions to reserve balances were comparatively moderate. Continued large disbursements of the United States Treasury in excess of local collections tended to increase member bank reserve balances, but these were offset in considerable part by an increase in local demand for currency and by a net outflow of funds to other districts because of payments in connection with commercial and financial transactions. Furthermore, such additions to reserve balances as did take place were accompanied by an advance in the volume of required reserves resulting from the continued growth in bank deposits. Thus, in the last two weeks of December, excess reserves of all district member banks averaged 30 percent of requirements, the ratio for country banks somewhat exceeding that for city institutions. In addition, correspondent balances were considerably larger than necessary for working purposes.

### Securities Markets

Stock and bond prices on Pacific Coast securities markets advanced considerably and at a more rapid rate than trading activity during 1936. Customers' debit balances on brokers books, which represent funds borrowed from brokers for the purpose of financing security purchases in local and eastern markets, increased at about the same rate as stock prices. During the first three months of the year, borrowings increased 21 percent. About two-thirds of the increase was liquidated in the period from April to July, but subsequently balances increased. On December 31 they were 30 percent larger than at the beginning of the year.

Trading on Pacific Coast stock exchanges fluctuated widely during 1936. Activity, as indicated by an index of the market value of shares traded, adjusted for price changes, was maintained at a comparatively high level early in the year. A decline commenced in February, however, and lasted until June. In that month, trading began an irregular increase, and by November markets were only slightly less active than in January when the high point of the year was reached. The index averaged 10 percent higher in 1936 than in 1935. As in 1935, about one-fourth of the market value of sales on all United States exchanges outside New York City represented trading on Twelfth District exchanges.

Price averages of Pacific Coast stocks were about 30 percent higher at the end of 1936 than at its beginning. A substantial rise early in the year was followed by a recession which carried prices to a point only slightly above their January level. The rise was resumed in June, and prices advanced irregularly during the remainder of the year.

Corporate bond prices advanced about 5 percent on the average during 1936. Improvement was more marked in the lower than in the higher grade issues. Prices of municipal bonds were also higher, yields on long-term issues falling about two-thirds of 1 percent. This decline would represent a rise of eight and one-half points in the price of a 4 percent bond due in fifteen years.

New securities distributed for Twelfth District corporations and local governing bodies in 1936 amounted to about \$455,000,000. Of this amount approximately \$75,000,000 represented municipal bonds, \$335,000,000 corporate bonds, \$25,000,000 preferred stocks, and \$20,000,000 common stocks. Almost all of the corporate bond issues were for refunding purposes, and more than half of the preferred stocks were sold for the purpose of retiring debt or other preferred stocks. The remainder of the preferred stocks and practically all of the common stocks supplied new capital.



# MONTHLY REVIEW

OF

## BUSINESS CONDITIONS

Federal Reserve Bank of San Francisco

Supplement

San Francisco, California, January 20, 1937

Vol. XXI No. 1

### SUMMARY OF NATIONAL CONDITIONS

Prepared by the Board of Governors of the Federal Reserve System

The Board's index of industrial production showed a sharp advance in December, after allowance is made for the usual seasonal changes. There was a marked expansion in employment and pay rolls, and retail trade continued at high levels.

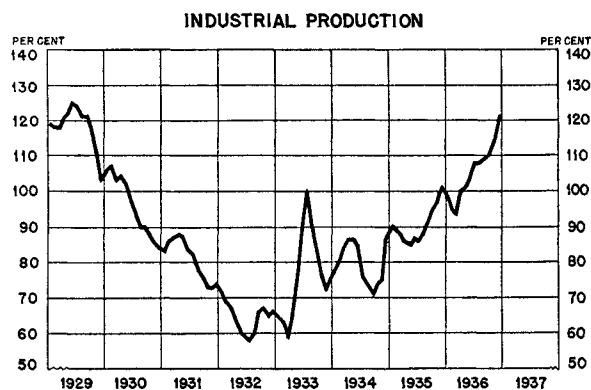
**Production and Employment.** Actual volume of industrial production showed little change from November to December, at a time when a sharp seasonal decline is usual, and the Board's adjusted index advanced from 114 to 121 percent of the 1923-1925 average. There was a further rise in activity at textile mills to the highest level on record and output of other nondurable manufactures was maintained. Declines in production of steel and lumber were smaller in December than are usual in that month. At automobile factories there was a marked increase in output. In the first three weeks of January activity at steel mills increased somewhat, but there was a decline in assemblies of automobiles as a result of shutdowns occasioned by strikes. Coal production declined seasonally from November to

December, while output of crude petroleum increased, contrary to seasonal tendency.

Value of construction contracts awarded, according to figures of the F. W. Dodge Corporation, showed a seasonal decrease in December.

Factory employment expanded further between the middle of November and the middle of December, contrary to the usual seasonal movement. Increases were general among the durable goods industries, with the largest advances at plants producing automobiles and machinery. In the nondurable goods industries there were marked increases in the number employed at textile mills and at shoe factories. Reflecting principally the higher level of employment and advances in wage rates, factory pay rolls increased sharply in December, particularly at steel mills and in the textile industries. In retail trade, employment rose more than seasonally and in most other nonagricultural pursuits there were increases, when allowance is made for seasonal changes.

**Distribution.** Retail sales in December in-



Index of physical volume of production, adjusted for seasonal variation, 1923-1925 average=100. By months, January 1929 to December 1936.



Indexes of number employed and payrolls, without adjustment for seasonal variation, 1923-1925 average=100. By months, January 1929 to December 1936. Indexes compiled by the United States Bureau of Labor Statistics.

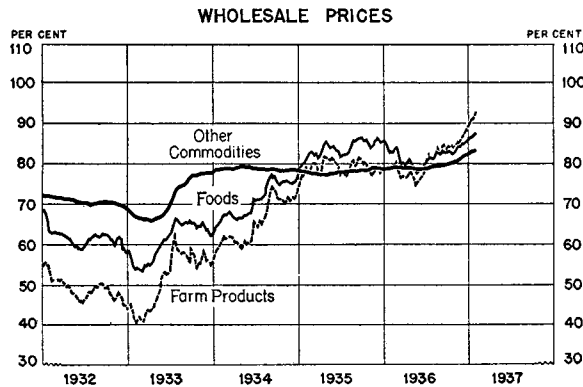
creased seasonally at department stores and by more than the usual seasonal amount at variety stores and mail order houses serving rural areas.

Freight carloadings showed a smaller decrease than is usual in December, and the Board's seasonally adjusted index advanced further.

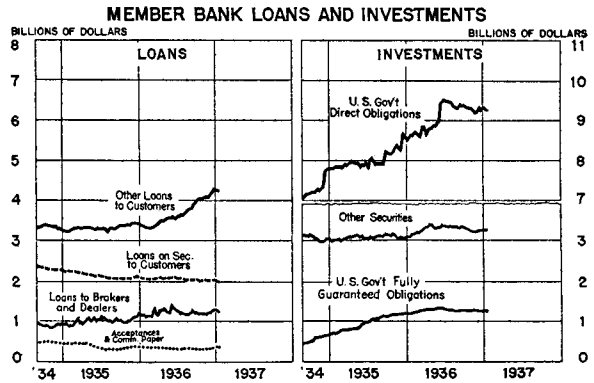
**Commodity Prices.** Wholesale prices, for both industrial and agricultural commodities, continued to advance in the second half of December and the first half of January. There

in loans to brokers. The decrease in loans reflected in part the retirement of notes issued by the Commodity Credit Corporation last July and in part repayment of other loans, which had increased sharply in preceding weeks. Holdings of Government obligations declined further at New York City banks, but increased at banks in other leading cities. Demand deposits decreased at the turn of the year, but thereafter increased somewhat, reflecting chiefly the return of currency from holiday use.

The rate on 90-day bankers' acceptances was



Indexes compiled by the United States Bureau of Labor Statistics, (1926=100.) By weeks, 1932 to date. Latest figure is for week ending January 16, 1937.



Wednesday figures for reporting member banks in 101 leading cities, September 5, 1934 to January 20, 1937. Loans on real estate and loans to banks excluded.

were marked increases in prices of industrial raw materials, particularly nonferrous metals, lumber, hides, and wool, and prices of a number of finished goods, such as steel products, paper, and textiles also advanced. Since the middle of January there has been a decline in prices of commodities traded in on the organized exchanges.

**Bank Credit.** Loans and investments of reporting member banks in leading cities declined in the first three weeks of January, as a result of reductions in commercial loans and

raised 1/16 percent on January 13 and now stands at 1/4 percent. Market discount rates on Treasury bills have also increased, with bills offered in the week ending January 16 selling at a discount of over 1/3 percent, as compared with a rate of about 1/10 percent early in December.

Excess reserves of member banks increased from \$1,880,000,000 to \$2,130,000,000 in the four weeks ending January 20, reflecting largely the post-holiday return flow of currency from circulation.

