MONTHLY REVIEW

BUSINESS CONDITIONS IN THE TWELFTH FEDERAL RESERVE DISTRICT

Federal Reserve Bank of San Francisco *April 1, 1937*

Review of the Month

Settlement of the maritime strike early in February was followed by a rapid expansion in water-borne commerce. By mid-March practically every available ship was in service and maritime shipments were at a higher level than in the period immediately preceding the strike. Notwithstanding the resumption of maritime shipments, rail traffic, which had been enlarged during November, December, and January by the diversion of shipments normally moving by water, increased by almost the full seasonal amount in February. With the restoration of shipments by water and the release of cargoes held in Pacific Coast ports during the strike, there was a marked advance in industrial output, particularly at lumber and flour mills and at cane sugar refineries. These gains were only partly offset by decreases in production resulting from labor disputes in several industries, including automobile assembly and airplane fabrication. Residential building activity decreased less than is customary in February, but the value of permits for private nonresidential building was sharply curtailed. Department store sales increased less than is customary during February.

Increased industrial output during February resulted largely from a greater than seasonal expansion in lumber production. This advance, which raised the seasonally adjusted index of lumber output approximately 7 percent, resulted entirely from expansion in the Douglas fir region where production was seriously curtailed during the period of the maritime workers' strike. Following the resumption of maritime commerce in early February, production increased rapidly and in the second week of March was 47 percent larger than the January weekly average, and only about 8 percent smaller than the weekly average last October. Log shortages and limited shipping space checked further expansion. Outside the Douglas fir region lumber production, which, on a seasonally adjusted basis, had averaged about as high in November, December, and January as in 1929, advanced less than is customary in February.

Resumption of maritime commerce also contributed directly to substantial gains in flour and sugar production in February. Reflecting expansion at seaboard mills, the seasonally adjusted index of wheat flour production increased 28 percent. The release of raw sugar from strike-bound vessels in San Francisco enabled local refineries to resume operations and by the middle of the month daily output had increased to pre-strike levels.

Expansion in production during February was accompanied by an increase of 3 percent in industrial employment, a development only partly attributable to seasonal influences. Estimates indicate that about 424,000 workers were on the pay rolls of manufacturers in the three Pacific Coast states in February, a slightly larger figure than in the corresponding month of 1929. Factory pay rolls advanced sharply last month but still were estimated to be 15 percent lower than in February 1929. During the past year, pay rolls have increased somewhat more rapidly than employment, a development reflecting increases in both working time and wage rates.

New private construction activity continued to decline in February. The value of permits for stores, office buildings, service stations, and other private nonresidential buildings in twenty large cities was 40 percent smaller than in January and 48 percent smaller than the high figure for the recovery period recorded in October 1936. A small decline in residential building reflected entirely the smaller number of working days in February.

The snow pack this winter has been heavy and irrigation water is expected to be adequate during the forthcoming crop season, a factor of major significance in the outlook for agricultural production in the Twelfth District. Wet, cold weather has delayed soil preparation and planting in some sections, and growth of forage on livestock ranges has been retarded. As a result of late rains, however, spring and summer range feed is expected to be plentiful.

Acreage—Spring Sown Crops—Twelfth District
(000 omitted)

	Acreage Harvested			
	Average 1928-1932	1935	1936	Indicated for Harvest-1937
Corn, All	269	234	246	247
Spring Wheat	1,894	1,368	2,225	2,430
Oats	682	856	814	757
Barley	1,430	1,566	1,389	1,353
Tame Hay	5,521	5,421	5,231	5,322
Grain Sorghums	117	190	159	184
Beans	459	458	461	516
Rice	114	99	140	147
Potatoes	256	260	260	288

According to the United States Department of Agriculture, somewhat larger acreage of most Twelfth District crops will be harvested this year than last. This forecast is based upon farmers' intentions to plant as of March 1, with allowance for ordinary abandonment.

Bank Credit

Twelfth District banks met that part of the increase in reserve requirements ordered by the Board of Governors of the Federal Reserve System to become effective March 1 without borrowing and without material liquidation of earning assets. Some adjustments were made by banks to meet this increase, which amounted to almost $60,000,000 and which established a new level of about $410,000,000 for required reserves. These adjustments were effected over a period of several weeks, however, and there were no sharp changes at the end of February. Country banks withdrew some of the idle balances they had carried with Twelfth District city correspondents, transferring them to the Federal Reserve Bank of San Francisco. Similarly, city banks withdrew comparatively small amounts of balances from New York correspondents and deposited them in the Federal Reserve Bank of San Francisco.

Although the amount of reserves that member banks are required to carry with the Federal Reserve Bank of San Francisco was increased 16⅔ percent on March 1 by the Board's order, the amount actually carried showed but a minor rise. Banks in the aggregate had been carrying reserves sufficiently in excess of the legal amounts to enable them to meet the new requirements with a large margin, and thus did not find it necessary to bring about an increase in their reserves through borrowing or liquidating earning assets. Other influences which might have added to or reduced the supply of district bank reserves caused relatively little net change during February. Unusually small amounts of funds were furnished by the United States Treasury, which, through disbursing more than it has collected in the Twelfth District, has been the principal source of additional reserves in recent years. Such amounts as did enter district banks during February because of Treasury disbursements in excess of local collections, as well as small amounts of currency redeposited in banks, were used in making net payments of funds to other districts in connection with commercial and financial transactions.

In contrast with these minor fluctuations in district member bank reserve balances during February, considerable expansion in reserves took place in the first seventeen days of March. Disbursements by the United States Treasury between March 1 and March 17 supplied banks with additional amounts of funds, despite the fact that $21,000,000 was transferred from local banks to the Treasury because of income tax payments by individuals and businesses. Part of the net gain in reserves also resulted from return to this district of proceeds from sales of securities which were disposed of in eastern markets by banks and others. The increase in reserve balances between March 3 and March 17 was $47,000,000, and on the later date they totaled $520,000,000. This amount was by far the largest ever carried by member banks at the Federal Reserve Bank of San Francisco and included a considerable amount in excess of legal requirements.

Weekly reporting member banks continued to dispose of some of their investments during February, including Government direct and guaranteed obligations, state and municipal bonds, and corporate securities. Some of the sales were no doubt in anticipation of the increase in reserve requirements, but it would appear that the selling also represented efforts to take advantage of a possible change in status of the bond market. Comprehensive statistics of country bank investments are not available currently, but other data indicate that some securities were sold by those banks immediately prior to and during the period of sharp declines in bond prices in late February and the first half of March.

Contrasting with the reduction in investments of city banks during February and early March, further increases in loans were recorded. The rise in loans since the first of this year has resulted from purchases of commercial paper and acceptances and from advances in the "all other" classification, generally considered to represent largely loans for business and agricultural purposes. The expansion in "all other" loans has included a considerable increase in the volume of monthly instalment loans made to finance consumer purchases of automobiles and various forms of equipment.

Production and Employment—

Index numbers, 1923-1925 average=100	With Seasonal Adjustment			Without Seasonal Adjustment		
	1937		1936	1937		1936
Industrial Production	Feb.	Jan.	Feb.	Feb.	Jan.	Feb.
Manufactures (physical volume)						
Lumber	73	68	79	53	48	58
Refined Oils*	—	—	—	154	154	156
Cement*	102	134	87	91	94	77
Meat*	114	111	105	—	—	—
Wheat Flour*	..	95	114	..	95	114
Minerals (physical volume)						
Petroleum*	—	—	—	88	88	89
Lead (U. S.)*‡	..	76	62	..	87	64
Silver (U. S.)*‡	..	..	93	..	..	100
Construction (value)						
Total Construction†	73	69	88	66	63	79
Urban Building Permits						
Residential	—	—	—	32	34	19
Nonresidential	—	—	—	81	45	41
Total (incl. alterations, etc.)	—	—	—	49	37	30
Public Works†	—	—	—	157	158	290
Miscellaneous						
Electric Power Production	199	197	179	182	182	164
Factory Employment and Pay Rolls						
Pacific Coast						
Employment	113	112	101	103	100	92
Pay Rolls	96	94	78	88	83	72
California						
Employment	126	125	108	115	111	99
Pay Rolls	110	109	86	104	99	81

*Daily average. ‡Prepared by Board of Governors of the Federal Reserve System. †Indexes are for three months ending with the month indicated.

Distribution and Trade—

Index numbers, 1923-1925 average=100	With Seasonal Adjustment			Without Seasonal Adjustment		
	1937		1936	1937		1936
Retail Trade	Feb.	Jan.	Feb.	Feb.	Jan.	Feb.
Department Store Sales (value)*						
Twelfth District	96	98	86	81	80	73
California	103	105	93	88	88	79
Los Angeles	99	101	85	87	86	75
Bay Region	106	108	101	89	89	85
San Francisco	103	105	99	89	88	85
Oakland	118	118	109	94	92	88
Pacific Northwest	72	73	63	57	54	50
Seattle	80	80	69	63	61	55
Spokane	58	59	53	46	41	42
Salt Lake City	77	69	72	61	52	57
Department Store Stocks (value)†	68	67	65	66	61	63
Furniture Store Sales (value)*‡	84	88	79	75	73	71
Automobile Sales (number)*						
Total	—	—	—	..	112	100
Passenger	—	—	—	..	108	96
Commercial	—	—	—	..	149	143
Carloadings (number)*						
Total	92	94	81	76	74	67
Merchandise and Misc.	109	106	92	91	88	76
Other	90	79	66	58	57	55
Intercoastal Traffic (volume)						
Total	23	7	75	21	7	67
Eastbound	9	9	69	8	10	61
Westbound	63	0	96	70	0	87

*Daily average. †At end of month. ‡1929 average=100.

Developments in the Twelfth District Banking Structure—1936

There was a further decline in the number of banks in operation in the Twelfth District during 1936, but the total number of banking offices increased. Both of these changes reflected considerable further growth of branch banking, almost entirely among member banks. At the end of the year, 323 Twelfth District banks were members of the Federal Reserve System while 329 district banks were not members. Both member and nonmember banks were fewer in number on that date than at any previous time since the Federal Reserve System was established in 1914.

Although the number of banks in the district declined further during 1936, assets continued to increase and at the end of the year were larger than at any previous time. Member banks held almost 87 percent of total district bank assets on December 31, 1936, a proportion slightly higher than on any earlier date.

Branch Bank Assets—Twelfth District
(In thousands of dollars)

State	Member Branch Banks 1935	Member Branch Banks 1936	Nonmember Branch Banks 1935	Nonmember Branch Banks 1936	Ratio Branch Bank Assets to All Bank Assets 1935	Ratio Branch Bank Assets to All Bank Assets 1936
Arizona	35,773	44,608	3,620	3,887	77.2	77.7
California	3,032,664	3,356,598	355,322	366,157	83.6	84.0
Idaho	43,411	64,080	2,941	3,467	51.0	63.2
Nevada	17,944	26,034	0	0	64.1	75.4
Oregon	185,398	217,928	1,197	2,547	69.1	70.5
Utah	49,278	52,608	1,214	1,519	32.8	33.1
Washington	259,540	296,121	3,691	3,912	52.9	52.9
Twelfth District	3,624,008	4,057,977	367,985	381,489	77.6	78.1

Reduction in the number of both member and nonmember banks during 1936 resulted principally from the absorption of institutions in smaller centers by banks having their head offices in district reserve cities. In only one instance did a merger of reserve city banks take place. In all, 28 member and 17 nonmember banks in the Twelfth Federal Reserve District were taken over by city banks during the year. The number of banks was also decreased by the voluntary liquidation of two nonmembers, but there were no failures of banks in the Twelfth District during 1936. Changes were not all in the direction of reducing the number of banks since four new state charters were issued during the year, two in Washington, one in Oregon, and one in California. None of these four banks became members of the Federal Reserve System. During the year, one state bank withdrew from membership and two others became members, but these changes did not affect the number of banks in operation.

Although the number of Twelfth District banks declined from 694 to 652 during 1936, banking offices increased from 1,640 to 1,657 because of additional branches. Most of the 45 banks absorbed during the year continued to be operated as branches and, in addition, 25 new branch offices were established by member banks and two by nonmembers. The discontinuance of seven branches by banks operating extensive branch systems in California partially offset this increase. Discontinuance of certain branches during 1936 was not a new development in that year but continued a practice evident for some time. Prior to 1929, rapid growth in the number of branches in California resulted in establishment of some offices which later were found not to be profitable. A good many of those branches were closed or consolidated with others between 1929 and 1933 and, even in the period of expansion since 1933, some further consolidation of branches has taken place. Ordinarily, a branch is closed only when it has become evident that it cannot be operated profitably and when its closing will not weaken the competitive position of the parent bank.

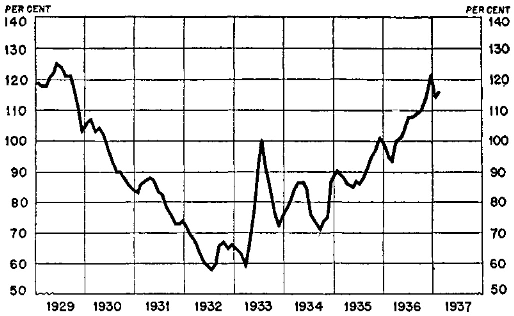
Branch Banks in Operation—Twelfth District

State	Banks Operating Branches: Total	Nat. B'ks	State Mem. B'ks	Non-Mem. B'ks	Branches: Total	Operated by Nat. B'ks	Operated by State Mem. B'ks	Operated by Non-Mem. B'ks	Located Outside Home City
December 31, 1935									
Arizona	3	2	0	1	19	15	0	4	19
California	39	11	8	20	798	615	136	47	553
Idaho	5	3	1	1	26	10	14	2	26
Nevada	2	2	0	0	7	7	0	0	6
Oregon	3	2	0	1	42	41	0	1	31
Utah	4	3	0	1	10	9	0	1	9
Washington	8	5	1	2	44	37	5	2	30
Total	64	28	10	26	946	734	155	57	674
December 31, 1936									
Arizona	3	2	0	1	22	18	0	4	22
California	38	10	9	19	839	657	137	45	598
Idaho	6	4	1	1	32	16	14	2	32
Nevada	2	2	0	0	8	8	0	0	7
Oregon	4	2	0	2	49	47	0	2	38
Utah	4	3	0	1	10	9	0	1	9
Washington	8	5	1	2	45	38	5	2	31
Total	65	28	11	26	1,005	793	156	56	737

During 1936 the number of branches increased in all states in the district except Utah. The largest expansion was in California with a net increase of 41 branch offices. All of this net increase represented branches acquired outside the home office city. Considerable expansion in branch banking also took place in Oregon and Idaho, entirely through the absorption of banks in smaller centers by banks having their head offices in Portland or in Boise or Lewiston. Growth in the number of branches resulted entirely from mergers with existing banks in all states of the district except in California, where 27 new offices were authorized, and in Arizona, where three new branch offices were established.

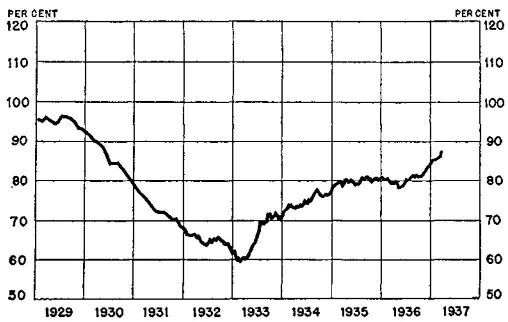
Licensed Banks in Operation—Twelfth District
(Figures as of December 31. Assets in thousands)

State	Member Banks Number 1935	Member Banks Number 1936	Member Banks Assets 1935	Member Banks Assets 1936	Nonmember Banks Number 1935	Nonmember Banks Number 1936	Nonmember Banks Assets 1935	Nonmember Banks Assets 1936	All Banks Number 1935	All Banks Number 1936	All Banks Assets 1935	All Banks Assets 1936
Arizona	6	6	$ 42,799	$ 53,158	3	3	$ 8,219	$ 9,242	9	9	$ 51,018	$ 62,400
California	139	123	3,550,334	3,911,014	132	121	502,588	522,564	271	244	4,052,922	4,433,578
Idaho	33	30	69,962	86,403	27	23	20,841	20,517	60	53	90,803	106,920
Nevada	6	5	23,155	28,936	4	3	4,850	5,586	10	8	28,005	34,522
Oregon	50	44	234,633	270,455	47	48	35,590	42,343	97	92	270,223	312,798
Utah	32	32	125,812	133,212	27	27	28,154	30,380	59	59	153,966	163,592
Washington	84	83	389,316	449,705	104	104	108,119	117,079	188	187	497,435	566,784
Twelfth District	350	323	$4,436,011	$4,932,883	344	329	$708,361	$747,711	694	652	$5,144,372	$5,680,594



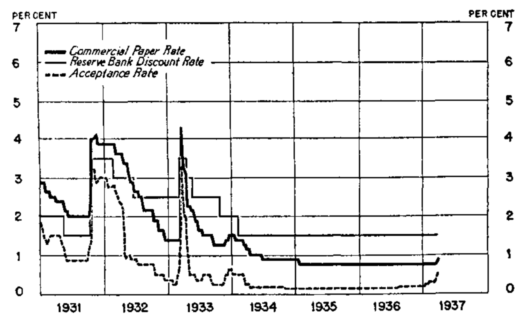
INDUSTRIAL PRODUCTION

Index of physical volume of production, adjusted for seasonal variation, 1923-1925 average=100. By months, January 1929 to February 1937.



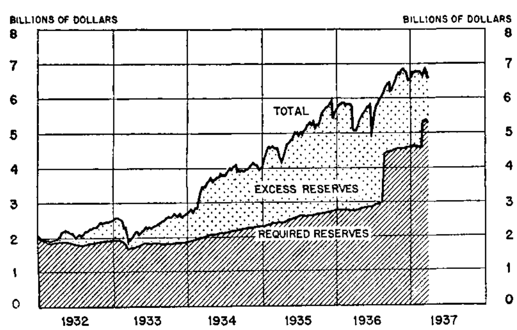
WHOLESALE PRICES

Index compiled by the United States Bureau of Labor Statistics, 1926=100. By months, 1929 to 1931; by weeks, 1932 to date. Latest figure is for week ending March 20.



MONEY RATES IN NEW YORK

Minimum rate on rediscounts for and advances to member banks by Federal Reserve Bank, and weekly prevailing rates on prime commercial paper, 4 to 6 months, and prime bankers' acceptances, 90 days. For weeks ending January 3, 1931, to March 27, 1937.



MEMBER BANK RESERVE BALANCES

Wednesday figures of total member bank reserve balances at Federal Reserve banks, with estimates of required reserves, January 6, 1932, to March 24, 1937.

National Summary of Business Conditions

Prepared by the Board of Governors of the Federal Reserve System

Volume of production, employment, and trade increased more than seasonally in February and wholesale prices of industrial commodities continued to advance.

Production and Employment

The Board's index of industrial production, which makes allowance for changes in the number of working days and for usual seasonal variations, was 116 percent of the 1923-1925 average in February as compared with 114 in January and an average of 115 in the last quarter of 1936. At steel mills activity continued to increase in February and the first three weeks of March and, although the growth was somewhat less than seasonal, output currently is about the peak level reached in the summer of 1929. Automobile production, while fluctuating considerably with strikes at important plants, has been larger for the year to date than in the corresponding period last year. Output of plate glass in February showed a sharp rise from the low level of the two preceding months when strikes curtailed production. At textile mills and shoe factories activity continued at a high level, while output at meat packing establishments declined somewhat further. Mineral production increased, reflecting chiefly greater output of coal and a further rise in crude petroleum production.

Value of construction contracts awarded this year, according to the F. W. Dodge Corporation, has been considerably larger than a year ago, reflecting an increased volume of private residential building and other types of private construction, while the volume of publicly-financed work has been smaller.

Factory employment and pay rolls increased from the middle of January to the middle of February by more than the usual seasonal amount. The number employed in the machinery industries increased considerably and there were smaller increases at automobile and plate glass factories. In the nondurable goods industries as a group there was a seasonal rise in employment.

Distribution

Department store sales increased from January to February and the Board's seasonally adjusted index advanced from 93 to 95 percent of the 1923-1925 average. Sales at variety stores also increased more than seasonally, while mail order sales, largely in rural areas, showed less expansion than is usual at this time of year. Total freight carloadings increased in February and the first half of March, owing in part to seasonal influences.

Commodity Prices

The general level of wholesale commodity prices advanced from the middle of February to the third week of March, reflecting principally further substantial increases in the prices of industrial materials. Prices of iron and steel, nonferrous metals, lumber, cotton, rubber, and hides advanced considerably and there were also increases in the prices of cotton goods, paper, and furniture. Wheat prices have advanced in recent weeks following a decline in the latter part of February.

Bank Credit

On March 1, when the first half of the recent increase in reserve requirements went into effect, excess reserves of member banks declined from $2,100,000,000 to about $1,300,000,000. In the next three weeks, which included the March tax collection period, excess reserves showed moderate fluctuations around the new level. In connection with the increase in reserve requirements there were some withdrawals of bankers' balances from city banks but practically no borrowing by member banks from the reserve banks.

Holdings of United States Government obligations at reporting member banks in leading cities declined by $280,000,000 in the four weeks ending March 17, a part of the decline reflecting large maturities of Treasury bills. Commercial loans increased further at reporting banks and on March 17 were above last year's high level reached on December 30. Loans to brokers and dealers in securities increased sharply.

Money Rates

Since the beginning of March the rate on 90-day bankers' acceptances advanced from $\frac{5}{16}$ of 1 percent to $\frac{9}{16}$ of 1 percent and commercial paper rose from a flat ¾ percent to a range of between ¾ and 1 percent.

Bond yields, which until recently had been near the extreme low point reached last December, advanced by between ¼ and ½ percent and on March 24 were at about the levels prevailing early in 1936.