

MONTHLY REVIEW

BUSINESS CONDITIONS IN THE TWELFTH FEDERAL RESERVE DISTRICT

Federal Reserve Bank of San Francisco

May 1, 1937

Review of the Month

In March and early April, business activity in the Twelfth District advanced at an accelerated rate, continuing the improvement noted in February after settlement of the maritime strike. Advances were particularly marked in private construction, in the output of products used largely in building, and in the sale of industrial equipment. Wage rate increases were widespread and wage earner income expanded more rapidly than production of goods. Agricultural income, with long term fluctuations ordinarily differing markedly from those of trade and industry, has tended upward since the spring of 1933, thus reinforcing the general expansion of purchasing power which has accompanied the recovery movement. During March, agricultural income continued appreciably higher than a year ago, largely because of increases in prices paid farmers for their products. Expanding consumer purchasing power has shown itself in a substantial increase in the value of retail trade. This bank's seasonally adjusted index of the value of department store sales increased 12 percent during the past year, due in part to price increases, and was higher in March than in any other month since May 1931.

Continued expansion of new construction and increasing purchases of industrial equipment are among the more important current business developments. In the Twelfth District, as in the country as a whole, most of the advance in recent months has taken place at the initiative of private rather than public agencies. The value of contracts awarded for public works was only half as large in the first three months of 1937 as in the first quarter of 1936. The value of permits issued for private new building in 18 large cities, on the other hand, increased 42 percent. Many industries have installed a substantial amount of new equipment during recent months, thereby adding to existing facilities and replacing obsolete machinery.

Particularly large gains have occurred in the construction of new residences, and the value of permits for such building is now at approximately the level of late 1929.

Large increases in the output of lumber, cement, brick, tile, plaster, and other building materials have been induced by the recent gains in construction.

Expanding industrial activity has been accompanied by increases in employment and working time. Factory employment in the three Pacific Coast states increased four percent between mid-February and mid-March, about twice the usual seasonal increase. Average hours worked per week in Califor-

nia industrial establishments advanced two percent during the same period.

Effects of the expansion in employment hours on industrial pay rolls were amplified by numerous advances in hourly wage rates. Among the important lines in which advances have been granted since the beginning of 1937 are the lumber, fruit and vegetable canning, steel, tin container, mining, automobile, and rubber tire industries. In California, hourly wage rates in mid-March were six percent higher than a year ago and two percent higher than in mid-February. As a result of these influences and the increase in employment, this bank's seasonally adjusted index of Pacific Coast factory pay rolls advanced five percent in March.

Retail trade increased considerably further during March. An unusually large advance in department store sales reflected partly the fact that Easter shopping was concentrated in March this year. Even after allowance for this and other seasonal influences, however, sales increased six percent to the highest value since 1931. Particularly large gains over the corresponding months of 1936 have occurred in department store sales of household furnishings and semi-luxury goods during recent months. Furniture store and mail order house sales also increased in March, after allowance for seasonal influences.

Intercoastal trade in March, the first full month of shipping since the end of the maritime strike, increased substantially. A huge volume of strike-bound goods was released for shipment and total intercoastal tonnage was larger in March than in any month since November 1929. Westbound tonnage was the largest since the opening of the Canal. More frequent schedules were inaugurated by several companies and some rate increases became effective.

Increased rail shipments in March partly offset the January and February decline from the December 1936 peak. In the first quarter of the year, carloadings were 13 percent higher than in the corresponding 1936 period.

AGRICULTURE

Additional snowfall at the higher altitudes and heavy rains throughout most sections of the Twelfth District during March retarded pasture and crop growth, and delayed early spring planting. Weather conditions were more favorable in April. Spring and summer range prospects improved during March, but the condition of ranges was below average on April 1. Snow surveys indicate that supplies of water will be adequate in all sections of the district where large acreages are irrigated.

Income received by farmers from the sale of the principal products marketed at this time of the year was considerably larger than during the comparable period in 1936. Returns to orange growers in California and Arizona during the first five months of the season beginning November 1 were seven percent larger this year than last, although shipments were 15 percent smaller. Estimates as of April 1 indicate a crop of 26,600,000 boxes, compared with last season's output of 33,300,000 boxes which approximated the 1928-1932 average. Lemon growers' returns for the season to April 1 were seven percent less this year than last. While prices have averaged 13 percent higher, shipments have been 18 percent smaller than last season.

Poultry and dairy products have brought higher returns to farmers this year than last. Egg production during March and the first three weeks of April was 17 percent larger than a year ago, and prices were approximately 15 percent higher. On the basis of current butter quotations, it is estimated that prices received by district milk producers were also higher than in March last year. Prices of butter advanced contraseasonally in March, and averaged 19 percent above the level of a year ago. Production, however, was 10 percent smaller, indicating some curtailment in the supply of milk. High feed prices and the poor condition of pastures during recent months were important factors in the decline of milk production.

California usually markets about 1,150,000 early lambs during the four-month period, March through June. Almost half of these are shipped to cities in the Middle West and the East. The out-of-state movement has been delayed this year because of the poor condition of lambs. Through April 17 only 30,200 head were shipped, compared with 63,000 head shipped through April 18, 1936. Prices have advanced during recent weeks and in mid-April

were more than 25 percent higher than a year earlier. Shearing of the 1937 wool clip, delayed by storms in March, was well under way throughout the district late in April. The wool market was active and buyers have contracted a large portion of the clip at prices averaging higher than in any season since 1928. Receipts of cattle during March in leading district markets were 17 percent larger than in March 1936. Prices paid to livestock growers were approximately 15 percent above those of a year ago.

BANK CREDIT

The moderate decline in earning assets of Twelfth District reporting member banks, in evidence during the first three months of the year, was arrested early in April and was followed by a sharp increase in the two weeks ending April 21. The decrease in preceding weeks was the result of a substantial reduction in investments, which were lower in early April than at any time since December 1935. From December 30, 1936 to April 7, holdings of Government securities declined four percent and other securities decreased 13 percent. In contrast, total loans continued to advance slightly, the increase being confined to loans in the "all other" classification. In the following two weeks, however, investment holdings of reporting member banks advanced, the increase being confined entirely to United States obligations. In the same two-week period, loans on securities to others than brokers and dealers, and banks increased, and loans in the "all other" classification advanced sharply further. That classification, consisting chiefly of advances for commercial, industrial, and agricultural purposes, also includes personal and consumer instalment loans, a category which has become increasingly important.

The decline in investments during the first quarter of the year was not restricted to reporting member banks, but, as indicated in the accompanying chart, extended to all district banks. This decline was the only appreciable reduction reported by dis-

Production and Employment—

Index numbers, 1923-1925 average=100	With Seasonal Adjustment			Without Seasonal Adjustment		
	(1937-1936)			(1937-1936)		
	Mar.	Feb.	Mar.	Mar.	Feb.	Mar.
Industrial Production						
Manufactures (physical volume)						
Lumber	82	72	77	77	53	72
Refined Oils*	—	—	—	152	153	153
Cement* .....	..	102	97	..	91	98
Meat*	124	114	110	—	—	—
Wheat Flour*	118	122	124	115	122	121
Minerals (physical volume)						
Petroleum*	—	—	—	89	89	86
Lead (U. S.)* ‡ .....	..	70	59	..	72	60
Construction (value)						
Total Construction †	65	73	76	62	66	73
Urban Building Permits						
Residential	—	—	—	55	32	31
Nonresidential	—	—	—	52	81	48
Total (incl. alterations, etc.) ..	—	—	—	55	49	40
Public Works †	—	—	—	114	157	224
Miscellaneous						
Electric Power Production	187	199	175	174	182	163
Factory Employment and Pay Rolls						
Pacific Coast						
Employment	115	113	102	107	103	95
Pay Rolls	101	96	84	97	88	81
California						
Employment	127	126	109	118	115	101
Pay Rolls	117	110	93	112	104	89

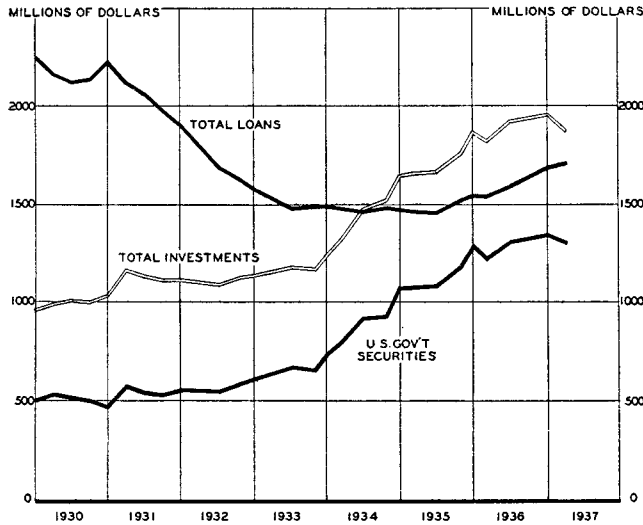
*Daily average. †Prepared by Board of Governors of the Federal Reserve System. ‡Indexes are for three months ending with the month indicated.

Distribution and Trade—

Index numbers, 1923-1925 average=100	With Seasonal Adjustment			Without Seasonal Adjustment		
	(1937-1936)			(1937-1936)		
	Mar.	Feb.	Mar.	Mar.	Feb.	Mar.
Retail Trade						
Department Store Sales (value)*						
Twelfth District	102	96	91	97	81	82
California	109	103	97	104	88	89
Los Angeles	105	99	92	101	87	85
Bay Region	111	106	103	105	89	93
San Francisco	110	103	103	104	89	92
Oakland	124	118	112	116	94	100
Pacific Northwest	81	72	70	75	57	61
Seattle	91	80	77	82	63	66
Spokane	66	58	58	57	46	48
Salt Lake City	81	77	71	73	61	61
Department Store Stocks (value) †	68	68	65	70	66	66
Furniture Store Sales (value)* ‡	90	84	81	81	75	73
Automobile Sales (number)*						
Total	—	—	—	160	115	162
Passenger	—	—	—	158	110	152
Commercial	—	—	—	188	173	272
Carloadings (number)*						
Total	93	90	81	87	75	76
Merchandise and Misc. ....	..	105	97	..	87	89
Other .....	..	70	62	..	59	60
Intercoastal Traffic (volume)						
Total	99	23	76	99	21	76
Eastbound	58	9	66	54	8	61
Westbound	239	70	118	253	63	125

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

trict member banks in recent years and it followed a seven-year period of expansion during which securities holdings more than doubled. Most of this advance came after mid-1933 and more than 85 percent of it was confined to increased holdings of Government obligations, including those fully guaranteed by the United States.



EARNING ASSETS OF ALL MEMBER BANKS—Twelfth District
Call report data; March 31, 1937 figures preliminary.

Investments expanded slowly between 1930 and mid-1933, but loans declined sharply. This reduction in loans was affected directly by numerous bank suspensions, and the drastic curtailment of business activity during that period of the depression also played its part. In mid-1933 the sharp decline in loans was checked, however, and the downward trend was moderate during the next two years. In the fall of 1935 a definite increase became evident, and on March 31, 1937, total loans of district member banks amounted to \$1,708,000,000, approximately \$260,000,000 larger than on June 29, 1935.

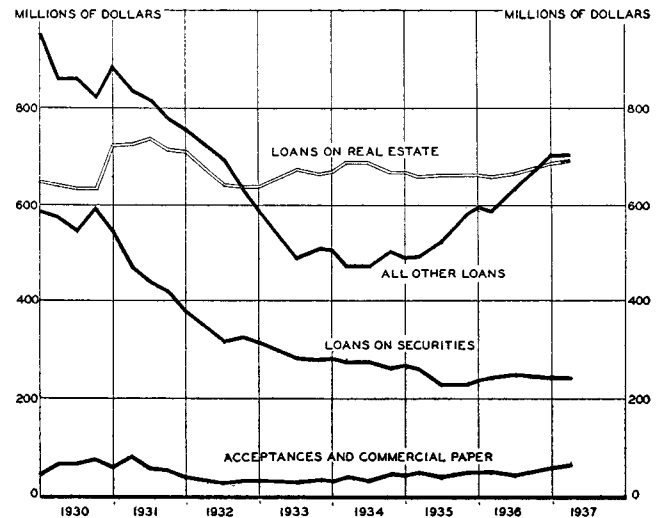
This expansion in total loans has been the result almost entirely of an increase in the "all other" loan classification. As shown in the chart in the next column, that group of loans increased moderately in the second half of 1934 and the first half of 1935. Thereafter a substantial expansion occurred, temporarily interrupted during the first quarter of 1936 by a decline which was largely seasonal in character. The increase between June 29, 1935 and March 31, 1937 approximated \$184,000,000, or 34 percent. Loans on real estate have fluctuated with little net change since mid-1933, a decline in advances on farm land being practically offset by an increase in loans secured by other real estate. Compared with 1929 and 1930, loans on securities, although tending slightly upward since mid-1935, are lower than any other major classification of advances segregated in the condition statements of member banks.

The third increase in reserve requirements ordered by the Board of Governors of the Federal Reserve System during the past ten months is

scheduled to become effective on May 1. In this district, the increase of 14.29 percent of present requirements will amount approximately to \$53,000,000 for banks in reserve cities and \$6,000,000 for country banks. Excess reserves held by city banks during the last two weeks of March averaged \$86,000,000, and those held by other banks averaged \$15,000,000. Although not distributed uniformly, these excess reserves are widely held. In late March about two-thirds of the member banks, both in reserve cities and in all other cities and towns of the district, reported amounts sufficient to meet the increase in requirements.

Between the end of March and April 28, member bank reserve balances increased \$25,000,000. Since net demand and time deposits, against which reserves are required, advanced only slightly during this period, there was a further increase in excess reserves.

Excess reserves alone, however, are not an inclusive measure of the amount and distribution of idle funds of district member banks. During the past several years, many local banks, particularly the reserve city institutions, have maintained larger balances with eastern correspondents than have been necessary for ordinary operating requirements. These balances are thus a ready source of funds for transfer to the reserve accounts of those banks at the Federal Reserve Bank of San Francisco. Many local country banks likewise have maintained large deposits with their city correspondents and they will probably withdraw funds from some city banks around May 1. In most cases, however, the city



LOANS OF ALL MEMBER BANKS—Twelfth District
(Excluding loans to banks)

Call report data; March 31, 1937 figures preliminary.

banks in this district have adequate idle funds to meet these withdrawals as well as the increase in their own reserve requirements. Extensive adjustments prior to May 1 to enable district member banks to comply with the increase in reserve requirements effective on that date do not appear necessary.

National Summary of Business Conditions

Prepared by the Board of Governors of the Federal Reserve System

IN MARCH industrial activity continued to increase and pay rolls at factories and mines showed a substantial rise. Prices of basic commodities, after advancing rapidly in March, declined in the first half of April.

PRODUCTION AND EMPLOYMENT

Industrial production increased from February to March and the Board's seasonally adjusted index advanced from 116 percent of the 1923-1925 average to 118 percent. The rise reflected a sharp increase in output of minerals, chiefly coal, and an increase of somewhat more than the usual seasonal amount in manufacturing. The larger output of coal in March was due in part to stocking by consumers in anticipation of a possible strike at bituminous coal mines on April 1 when the agreement between mine operators and the miners' union expired. A new agreement was reached on April 2 but, owing partly to the previous accumulation of stocks, production in the first ten days of April showed a sharp decline. During March activity at steel mills increased seasonally and in the first three weeks of April was over 90 percent of capacity. In the automobile industry output showed about the usual seasonal increase in March and the first three weeks of April, considerable fluctuations during this period being largely in response to developments in the labor situation. Lumber production expanded considerably in March, and there was a sharp rise in output of nonferrous metals. Cotton consumption, which has been at an unusually high level in recent months, increased further in March and in actual amount was larger than in any previous month. Production at woolen mills and shoe factories continued in large volume.

Value of construction contracts awarded in March, as reported by the F. W. Dodge Corporation, was at about the same level as in February and substantially higher than a year ago. Privately-financed work increased, while the amount of publicly-financed work continued to decline. The increase in privately-financed projects reflected a larger volume of residential building and of factory and commercial construction.

Employment and pay rolls increased by considerably more than the usual seasonal amount between the middle of February and the middle of March. The expansion in pay rolls was larger than in employment, reflecting in part a further rise in wage rates. In manufacturing, the principal increases in employment were in industries producing durable goods, particularly steel machinery, and lumber. The number employed in the production of nondurable manufactures showed slightly more than the usual seasonal rise.

DISTRIBUTION

Distribution of commodities to consumers showed about the usual seasonal increase from February to March. Mail order sales expanded considerably but the rise in department store sales was less than seasonal, considering the early date of Easter this year.

COMMODITY PRICES

Prices of nonferrous metals, steel scrap, rubber, cotton, and wheat, which had advanced rapidly in March, declined considerably in the first half of April. Since the middle of March prices of coke, tin plate, and rayon have advanced and there have been smaller increases in a wide variety of other industrial products. Dairy products have declined, reflecting in part seasonal developments.

BANK CREDIT

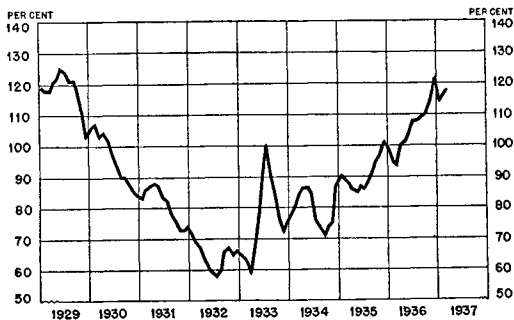
In the four-week period from March 24 to April 21, excess reserves of member banks increased from \$1,270,000,000 to \$1,590,000,000, reflecting principally disbursements by the Treasury from balances with Federal Reserve banks and purchases of United States Government obligations by the Federal Reserve System. The bulk of the increase in excess reserves was at banks in New York City and Chicago.

Total loans and investments of reporting member banks, which had declined sharply in March, reflecting sales of United States Government obligations showed little change in the two weeks ending April 14. Loans to brokers and dealers in securities declined from the middle of March to the middle of April while other loans, which include loans for commercial, industrial, and agricultural purposes, showed a substantial increase. These loans have increased almost continuously over the past year.

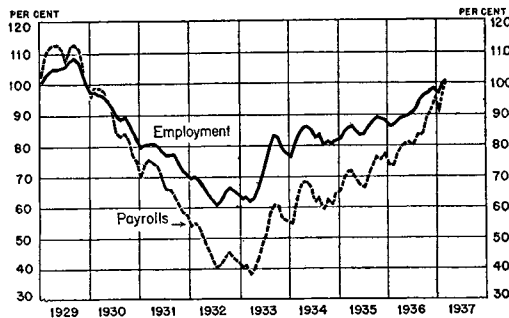
Demand deposits, after declining in March, increased somewhat in the first half of April, and there was an increase in foreign bank balances, reflecting an inward movement of short-term funds from abroad.

MONEY RATES

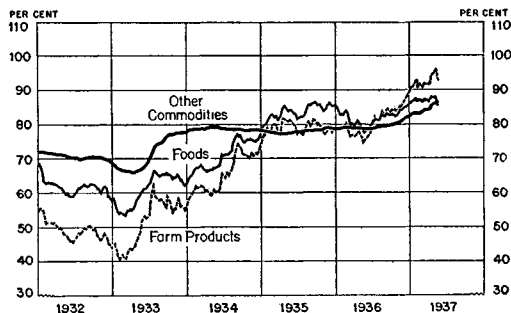
The rate on prime commercial paper advanced from $\frac{3}{4}$ percent to one percent in the latter part of March. Bond yields, which had advanced sharply in March, showed no pronounced change in the first three weeks of April.



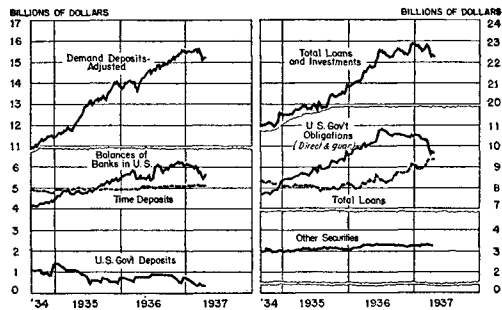
INDUSTRIAL PRODUCTION
Index of physical volume of production, adjusted for seasonal variation, 1923-1925 average=100. By months, January 1929 to March 1937.



FACTORY EMPLOYMENT AND PAY ROLLS
Indexes of number employed and pay rolls, without adjustment for seasonal variation, 1923-1925 average =100. By months, January 1929 to March 1937. Indexes compiled by the United States Bureau of Labor Statistics.



WHOLESALE PRICES
Indexes compiled by the United States Bureau of Labor Statistics, 1926=100. By weeks, 1932 to date. Latest figure is for week ending April 17.



MEMBER BANK CREDIT
Wednesday figures for reporting member banks in 101 leading cities. September 5, 1934 to April 14, 1937.