MONTHLY REVIEW

BUSINESS CONDITIONS IN THE TWELFTH FEDERAL RESERVE DISTRICT

Federal Reserve Bank of San Francisco
June 1, 1937

Review of the Month

INDUSTRY AND TRADE

The sharp upward movement in business during February and March which brought the levels of activity back to the point reached last fall was followed by comparative stability in April. The important construction industry continued to expand.

The volume of industrial production, after allowance for seasonal changes, was about the same in April as in March. Expansion in manufacturing activity was retarded by labor disputes in some areas, by heavy rains which affected logging in the Pacific Northwest, and by the nearly full utilization of plant capacity in certain lines. For more than six months now virtually all serviceable plant capacity at steel mills and in the rubber tire and pulp and paper industries has been in use. Any increase in the rate of output in these industries would have required additional new facilities, the replacing of obsolete equipment, or the repair and use of any existing facilities which were out of order.

The current high level of activity in industry generally is stimulating large expenditures on production facilities in manufacturing and mining. Contracts amounting to $12,900,000 were awarded during the first four months of this year, compared with $7,800,000 in the like period last year. In April, contract awards, chiefly for mining developments, amounted to $5,800,000.

This bank's adjusted index of the value of new residential building in eighteen large cities increased two points to 43 percent of the 1923-1925 average in April. Residential building, after reaching a peak in 1923, declined almost continuously until the fall of 1932, and did not move upward definitely until late 1934. New building was at a rate slower than the growth of population during a large part of that period. With expanding private incomes and the growing use of more adequate facilities to finance mortgage loans at low cost, there was a marked upturn in residential building. The adjusted index of permits for such purposes is now within 14 percent of the 1929 average.

Recovery in residential building was interrupted in May, according to preliminary reports. During the past two months operative or speculative builders, who build a large portion of the new residences in the larger cities, have encountered difficulty in selling new houses. Some of these builders, who, until quite recently, have sold most of their houses before completion, have had finished structures on the market for some time. Rapid advances in prices asked for new dwellings, caused by increases in building costs and contractors' margins, are reported to be chiefly responsible for the slackening of market activity. Operative builders are undertaking less new building than previously, partly because it is felt that there may be some difficulty in passing increased costs and charges on to house purchasers. At the same time vacancies generally are reported to be very low, and rents have continued to advance.

The continued expansion in private construction, increasing installation of equipment, and further rebuilding of inventories depleted during the maritime strike have been important factors in maintaining freight shipments at high levels. During the past three months this bank's seasonally adjusted index of freight carloadings has approximated 91 percent of the 1923-1925 average. At this level it has been 6 percent higher than in October 1936. The adjusted index of waterborne shipments from the Pacific Coast through the Panama Canal in March and April was somewhat lower than last October. This would indicate that the proportion of total shipments of products originating in this district moving by rail continues to be higher than last fall. Westbound shipments through the Panama Canal consist largely of materials used in construction. These shipments during April were exceeded only by the all-time high record reached in March.

Retail trade has increased moderately since last fall. In March and April, the index of the value of sales averaged 5 percent higher for department stores and 7 percent higher for furniture stores than in August, September, and October of last year. New automobile sales have increased less markedly, the average for the first four months of the year being only 5 percent higher this year than last.

AGRICULTURE

In the Pacific Northwest, unusually heavy rainfall during April and early May delayed seeding operations and retarded growth of crops and forage. Precipitation was generally below normal elsewhere in the district, but abundant rainfall in previous months and the heavy snowpack continue to assure an adequate supply of water for stock and irrigation purposes. Deciduous fruits in California and the Pacific Northwest are developing somewhat later than usual, but the May 1 crop reports indicate that more fruit may be produced this year than last, and that total output may exceed the average of recent years.

The winter wheat crop in the district and the barley crop in California have progressed sufficiently to permit reasonably accurate forecasts of probable output. The latest estimates indicate yields...
somewhat smaller than the average in recent years. The California barley crop, estimated at 659,650 tons, will be about 8 percent smaller than last year, and 6 percent below average annual production from 1931 through 1935. Last year's large crop was marketed at rapidly advancing prices. Quotations for both old and new crop barley in San Francisco in mid-May were nearly double those of a year earlier. Although export shipments for the first 11 months (June through April) of the marketing season were 38 percent smaller than for the same period last season, eastern shipments and local utilization more than offset this decline.

Growing conditions in the citrus fruit producing areas in California were favorable during April. Production estimates for Valencia oranges were increased from 14,400,000 boxes on April 1, to 15,900,000 boxes on May 1, compared with a crop of 18,880,000 boxes last year.

BANK CREDIT

Total earning assets of Twelfth District reporting member banks declined moderately in the four weeks ending May 19, a further increase in loans partially offsetting a continued decline in investments. As in other recent weeks the decline in investments took place in both Government obligations and in other securities. Revision of the classification according to which loans have been reported weekly by city banks became effective May 12, but reasonably accurate comparisons with data reported earlier may still be made. It appears that advances previously grouped as "other loans" increased further during the period under review. Loans in that group generally have been regarded as representing advances to customers for commercial, industrial, and agricultural purposes. Real estate loans, which have fluctuated with little net change during the past two and one-half years, were slightly higher in mid-May than at any time since segregated data for that type of advances were first collected from reporting member banks in September 1934.

The latest revision in the form of the weekly condition report of member banks in leading cities is restricted to the reclassification of loans. This revision was designed to make available more information regarding the purposes for which loans are extended, or to indicate the original uses to be made of the funds obtained by borrowers from banks. The data reported under the new classification will consequently be of substantial significance in analyses designed to determine the effect of the extension of credit in various lines of economic activity.

Under the new classification two major changes have been introduced. First, the mere existence of collateral in the form of stocks, bonds, and other securities is no longer utilized as a basis for the segregation of loans. Loans on securities are now classified according to the original purpose for which they were made. On the presumption that all loans to brokers and dealers are for the purpose of purchasing or carrying securities, the item "Loans on securities to brokers and dealers" has been retained, but the item "Loans on securities to others than brokers and dealers" has been replaced by "Other loans for purchasing or carrying securities". Second, loans for business purposes, or advances to individuals and firms engaged in commercial, industrial, or agricultural activities (except paper purchased in the open market, and loans secured by real estate) are being reported in a separate classification. Previously such loans were included, in part, in the item "Loans on securities to others than brokers and dealers" and principally in the "Other loan" group. With the introduction of these changes the new item "other loans" is not at all comparable with that reported under the same caption heretofore.

### Distribution and Trade

- **Retail Trade**
  - Department Store Sales (value)*
  - California
  - Los Angeles
  - Bay Region
  - San Francisco
  - Oakland
  - Pacific Northwest
  - Seattle
  - Spokane
  - Salt Lake City
  - Department Store Sales (value)*
  - Furniture Store Sales (value)*
  - Automobile Sales (number)*
  - Total

- **Intercoastal Traffic (volume)**
  - Eastbound
  - Westbound

*Daily average. $1929 average=100.
The accompanying table indicates the distribution of total loans on May 12 according to the old and the new classifications. After May 12, reports classifying loans on the old basis were discontinued.

### Loans of Reporting Member Banks—Twelfth District

**May 12, 1937**

<table>
<thead>
<tr>
<th>Item</th>
<th>Amount</th>
<th>Percent of Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Acceptances and commercial paper bought</td>
<td>31,249,000</td>
<td>3.0</td>
</tr>
<tr>
<td>Loans to banks</td>
<td>4,750,000</td>
<td>0.5</td>
</tr>
<tr>
<td>Loans to brokers and dealers:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>New York City</td>
<td>3,400,000</td>
<td>3.3</td>
</tr>
<tr>
<td>Outside New York City</td>
<td>19,150,000</td>
<td>19.1</td>
</tr>
<tr>
<td>Loans to securities (except banks)</td>
<td>371,134,000</td>
<td>36.2</td>
</tr>
<tr>
<td>Loans to real estate</td>
<td>371,134,000</td>
<td>36.2</td>
</tr>
<tr>
<td>Other loans</td>
<td>421,411,000</td>
<td>41.0</td>
</tr>
</tbody>
</table>

**Total** | **$1,026,061,000** | **100.0** |

*The total of "Loans to brokers and dealers" under the old classification is smaller than "Loans to brokers and dealers in securities" under the new classification because unsecured loans to brokers and dealers were included in "Other loans" under the old form.

Aggregate deposits against which reporting member banks are required to maintain reserves were practically unchanged during the four weeks ending May 19, continuing at approximately the level reported early in the year. Deposits of all district member banks similarly have shown but little net change during recent months.

Since the first of the year, however, a substantial increase has taken place in the balances which local member banks are required to maintain at the Federal Reserve Bank of San Francisco as a reserve against their outstanding deposits. For country banks, reserve requirements advanced from a daily average of $35,682,000 in the first two weeks of January to $48,073,000 in the first two weeks of May. For city banks, the increase was from $320,048,000 to $427,659,000. This change has been the result almost entirely of increases in reserve requirements, effective on March 1 and May 1, in accordance with action taken by the Board of Governors of the Federal Reserve System.

Increases on both dates were readily met by district member banks with but minor adjustments. In this they were aided by the large volume of excess reserves which has been accumulated in recent years and by the return of idle funds deposited earlier with correspondents in other districts. Some liquidation of investments, induced by a variety of considerations and in evidence among district city banks since mid-January, was also a factor. Thus, in the week following May 1 advance to banks totaled only $6,919,000.

Following the increase in requirements effective on May 1 excess reserves of district member banks averaged $55,800,000 during the first half of the month.

### Cost of Living

Living costs for families of wage earners and lower-salaried workers in Los Angeles, San Francisco, Portland, and Seattle advanced about 3 percent from mid-December to mid-March, the most recent period for which information is available. Markedly higher prices paid by consumers for food, the largest single group of items, were the chief factor in the advance. Clothing, rent, and house-furnishing goods also increased, while fuel and light, and miscellaneous costs showed little change during the period.

#### Cost of Living—Twelfth District and United States

<table>
<thead>
<tr>
<th>City</th>
<th>Dec. 1929</th>
<th>June 1933</th>
<th>Apr. 1936</th>
<th>Dec. 1936</th>
<th>Mar. 1937</th>
</tr>
</thead>
<tbody>
<tr>
<td>Los Angeles</td>
<td>95</td>
<td>79</td>
<td>75</td>
<td>77</td>
<td>80</td>
</tr>
<tr>
<td>Portland</td>
<td>96</td>
<td>71</td>
<td>81</td>
<td>83</td>
<td>85</td>
</tr>
<tr>
<td>San Francisco</td>
<td>100</td>
<td>79</td>
<td>84</td>
<td>85</td>
<td>87</td>
</tr>
<tr>
<td>Seattle</td>
<td>100</td>
<td>82</td>
<td>83</td>
<td>85</td>
<td>87</td>
</tr>
<tr>
<td>United States</td>
<td>100</td>
<td>75</td>
<td>81</td>
<td>82</td>
<td>84</td>
</tr>
</tbody>
</table>

Source: United States Department of Labor.

Retail food prices have remained stable or declined slightly since mid-March, indicating that the increase in living costs was probably less pronounced in recent weeks.

### Corporate Earnings in the Twelfth Federal Reserve District

Annual reports for 1936 are now available for a considerable number of corporations operating principally in the Twelfth Federal Reserve District. On the basis of 158 of these reports, it is estimated that net earnings of district corporations in 1936 were approximately 30 percent greater than net earnings in 1935. Corporations in four industrial groups, the manufacture of building materials other than lumber and cement, railroad transportation, cement manufacturing, and copper, lead, and zinc mining, experienced the greatest improvement in 1936. The first two of these groups reported deficits in 1935 but earned substantial profits last year. Other industrial groups, including corporations engaged in gold and silver mining, in providing telephone service, and in the manufacture and distribution of gas and electricity earned but little more in 1936 than in 1935. The earnings of insurance and aircraft companies declined slightly.

Despite the increase during the last year, net earnings still were considerably below those in 1929. The ratio of 1936 earnings to 1929 earnings for 101 corporations concerning which information was available was 55 percent. Insurance companies, firms engaged in retail distribution, and corporations manufacturing and distributing gas and electricity were the only groups which equalled or bettered their 1929 results. Railroad earnings in 1936 were but a fifth of earnings in 1929. In general, those companies which in 1936 showed the greatest improvement over 1935 were those whose 1936 earnings were the smallest in relation to their 1929 earnings.
National Summary of Business Conditions

Prepared by the Board of Governors of the Federal Reserve System

INDUSTRIAL activity in April and the first half of May was maintained at the relatively high level of recent months. The general level of wholesale commodity prices declined somewhat, reflecting considerable reductions in prices of many raw materials and semi-finished products.

PRODUCTION, EMPLOYMENT, AND TRADE

The Board’s seasonally adjusted index of industrial production in April continued at 118 percent of the 1923-1925 average. Manufacturing production rose further, reflecting increased output of durable goods. Activity at steel mills was at a rate slightly higher than in March and about equal to that in the peak month of 1929. Automobile production continued to expand. In the first three weeks of May, output in these industries was maintained at the levels reached at the close of April. Increases in output in April were also reported for lumber and plate glass. At textile mills, where output has been at a high level in recent months, there was a slight reduction in activity.

At bituminous coal mines, output declined sharply, following an increase in March, when consumers accumulated stocks of coal in anticipation of a strike. Crude petroleum output, which had risen sharply from November to March, showed further growth in April. Production of most metals also increased.

Value of construction contracts awarded, as reported by the F. W. Dodge Corporation, increased more than seasonally from March to April and continued higher than a year ago, reflecting, as in earlier months of the year, a larger volume of residential building and of other privately-financed work. Contracts awarded for publicly-financed construction have been considerably smaller in the first four months of this year than in the corresponding period of 1936.

Employment rose further between the middle of March and the middle of April. There was a considerable growth in the number of persons employed in manufacturing and on the railroads, little change in those employed in the public utility industries and in trade, and a decline at bituminous coal mines. At factories, the principal increases in employment were reported by the steel, machinery, and automobile industries, while the number employed in the clothing industry declined. Working forces at textile mills were maintained, although a decrease is usual at this season. Factory pay rolls increased more than employment, reflecting chiefly further increases in wage rates.

In April, sales at department stores showed little change and mail order sales were also maintained at the March level, while sales at variety stores declined.

COMMODOITY PRICES

The general level of wholesale commodity prices, as measured by the index of the Bureau of Labor Statistics, declined from 88.3 percent of the 1926 average at the beginning of April to 86.9 percent in the middle of May. Prices of nonferrous metals, steel scrap, cotton, and rubber declined considerably, and there were also decreases in the prices of grains, cotton goods, silk, hides, and chemicals, while prices of shoes and clothing showed further small advances. Since the middle of May prices of hogs and pork have advanced sharply and grain prices have also risen.

BANK CREDIT

Following upon the final increase in reserve requirements, which became effective on May 1, excess reserves of member banks declined from $1,600,000,000 to about $600,000,000, and in the first three weeks of May fluctuated around the new level. Adjustments by banks to the new requirements were reflected in a decrease in interbank balances and in a small increase in borrowings. The Federal Reserve System in April purchased $96,000,000 of United States Government securities, for the purpose of easing the adjustment to the new requirements and preserving orderly conditions in the money market.

Total loans and investments of reporting member banks showed a small decline from the middle of April through May 19. Holdings of United States Government obligations and other securities showed some decline, which was offset in part by increases in loans.

While domestic interbank and United States Government deposits declined, further balances of foreign banks and other demand and time deposits at reporting member banks increased.

MONEY RATES

The open market rate on ninety-day bankers’ acceptances, which between January and the latter part of March had advanced from ¾ to 7/8 percent, was reduced to 5/8 percent on May 7, and the rate on nine-months Treasury bills declined to 62 percent on May 24, compared with a high point of 7/4 percent on May 3. Other short-term rates have shown little change in recent weeks. Yields on long-term Treasury and other high-grade bonds have declined somewhat.