

MONTHLY REVIEW

BUSINESS CONDITIONS IN THE TWELFTH FEDERAL RESERVE DISTRICT

Federal Reserve Bank of San Francisco

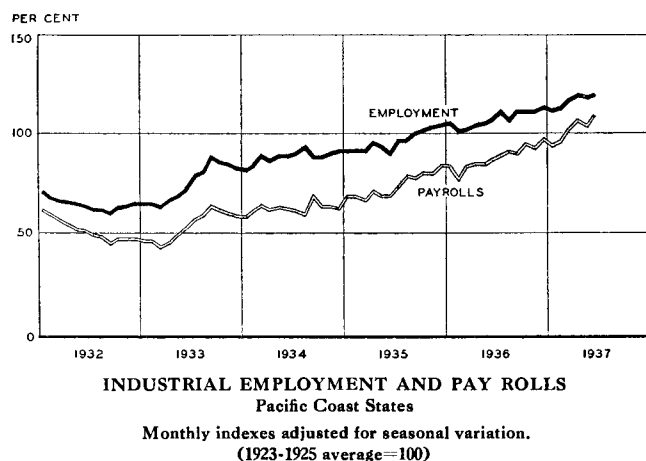
August 1, 1937

Review of the Month

INDUSTRY AND TRADE

As in the preceding two months, business activity during June fluctuated narrowly with little net change. Industrial output and employment were approximately as large as in April and May. Factory pay rolls advanced considerably, however, reflecting increases in wage rates received by workers from mid-May to mid-June. A decline in retail trade, as measured by department store sales, was only of seasonal proportions, while measures of the movement of goods showed little concerted change. New private building, which decreased in May, was curtailed further in June, while public construction increased.

Production of lumber and petroleum, two of the most important district products, was larger in June than in the preceding month. Notwithstanding the increase in output of lumber during June, sales declined and the large amounts of unfilled orders accumulated last winter decreased further. Some decline in prices also has been reported. The fruit and vegetable canning industry was seasonally active in June. Plants in California were principally engaged in packing apricots and cherries, and cherries, berries, and peas in the Pacific Northwest. Judging from estimates of available supplies of raw materials and from trade comments, it is probable that the district pack of both apricots and peas will be considerably larger than last year, while some decline in the cherry pack is indicated. The aircraft and paper and pulp industries,

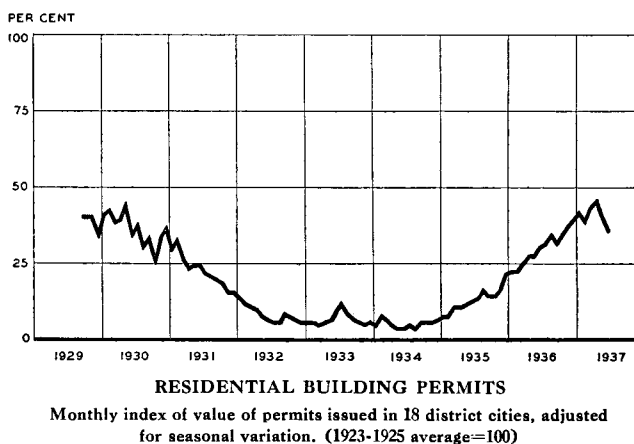


which are comparatively new but rapidly expanding district industries, continued as active as in the preceding several months. Output in the rubber tire and steel industries declined somewhat.

Industrial employment increased seasonally both in California and in the Pacific Northwest. This bank's ad-

justed index of pay rolls, however, advanced sharply from 104 percent of the 1923-1925 base in May to 109 percent in June. This advance was accounted for in large part by increases in wage rates in most lumber mills in the Pacific Northwest.

The volume of new private building and construction projects undertaken, after having increased rapidly for several months, declined in May and June. The sharp increase in construction costs during last winter and spring has been an important factor tending to check a continued expansion of residential construction. This bank's season-



ally adjusted index of the value of residential permits issued in 18 cities was 35 percent of the 1923-1925 average in June, compared with 40 percent in May and 45 percent in April. Figures for the first 23 days of July indicate that it will decline further in that month. Activities of operative or speculative builders have been particularly affected during the past two or three months. Sales of completed houses at prices originally set for them have been slow recently, and in some instances, particularly in southern California, asking prices have been reduced. Permits for nonresidential private building (unadjusted for seasonal), although giving some evidence of a decline in value during May and June, continue at nearly unchanged levels. A further indication that private nonresidential construction has not been expanding rapidly during recent months is afforded by the value of contracts awarded for the construction of industrial plants and installation of industrial equipment. Awards were lower during June than in other recent months, but rose to the highest monthly total of the year in July, entirely because of the letting of one unusually large contract. Building permits and contracts measure only the new work to be undertaken, of course, and construction actually under way in June continued at a high level.

Changes in the volume of industrial production and private building during the past ten months have taken

place during a period of relative stability in retail trade. This bank's seasonally adjusted index of department store sales has fluctuated between 95 and 98 percent of the 1923-1925 average since last September, except in December and March when the index was considerably higher. Furniture store sales have increased almost continuously during this period, although the adjusted index in June, at 92 percent of the 1923-1925 average, was no higher than the figure reached in August 1936. Sales of new passenger automobiles increased considerably during the spring as is usual in those months, but were moderately lower in June 1937, than in June 1936.

AGRICULTURE

Weather conditions during June and early July were favorable for the development of crops. Widespread and unusually heavy rainfall benefited the important wheat crop in the Pacific Northwest, but damaged the cherry crop in some localities. Livestock ranges improved during June in all states of the district except Idaho, and on July 1 were in as good or better condition than on that date in most recent years.

District farm income (including government benefit payments) expanded seasonally in May and for the first five months of the year is estimated at \$355,074,000. During the comparable period last year, farm income aggregated \$291,405,000. This gain, together with current crop prospects and prices, indicates the likelihood of a materially larger district farm income for the year as a whole than in 1936. Marketings in the last seven months of the year account for approximately two-thirds of total income, however, so the final results may be affected substantially by price changes and by conditions affecting the volume and quality of agricultural products marketed during the remainder of the year.

GRAIN AND FIELD CROPS, ACREAGE AND PRODUCTION— TWELFTH DISTRICT (In thousands)

	Acreage		Production		Indicated 1937
	1936	1937	Average 1928-1932	1936	
Barley (bu.)	1,389	1,429	40,570	41,116	40,689
Corn (bu.)	246	253	8,080	7,178	7,587
Oats (bu.)	814	750	24,648	30,261	26,882
Wheat (bu.)	5,348	5,448	108,874	110,215	114,209
Beans (bags)	461	516	4,944	5,381	6,297
Cotton (bales)	578	888	328	610	—
Hay (tons)	5,231	5,308	11,844	11,945	11,613
Hops (lbs.)	32	35	28,011	23,310	44,720
Potatoes (bu.)	260	301	45,367	52,981	61,117
Rice (bu.)	140	154	7,442	9,548	10,472
Sugar beets (tons)	227	241	1,930	3,094	2,941

Source: United States Department of Agriculture.

The wheat crop, which has accounted for about eight percent of the total farm income of the district during recent years, was estimated on July 1 at 114,209,000 bushels, compared with 110,215,000 bushels harvested last year. In addition to securing a larger crop, farmers are likely to receive higher prices for wheat than a year ago. The average farm price for wheat in the Pacific Northwest is now substantially higher than it was last year at this time. Furthermore, foreign demand has always been an important factor in Pacific Northwest wheat markets and, if the current relationship between domestic and foreign prices continues, a substantial proportion of this season's crop may be exported.

Cotton growers in Arizona and California planted 578,000 acres and produced 610,000 bales of cotton hav-

ing a farm value of approximately \$38,000,000 last year. In addition, they received another \$10,000,000 for the cottonseed harvested. This year 888,000 acres were under cultivation on July 1, the most extensive acreage ever planted in the Twelfth District. The large acreage increase was chiefly due to the planting of additional land to cotton in the San Joaquin valley in California, where acreage under cultivation was 70 percent larger than on July 1, 1936. This important cotton growing area produced over two-thirds of the total district output last year. Weather conditions have not been so favorable for the early growth of cotton in Arizona and California this season as last.

DECIDUOUS FRUIT PRODUCTION—TWELFTH DISTRICT (In thousands of tons)

	Average 1928-1932	1935	1936	Indicated 1937
Apples	1,320	1,216	1,074	1,179
Apricots	227	216	248	285
Cherries	50	48	62	47
Grapes*	1,924	2,194	1,714	2,219
Raisin	1,161	1,248	918	1,343
Table	345	375	324	356
Wine	418	571	472	520
Peaches*	572	429	516	527
Clingstone	375	288	337	344
Freestone	197	141	179	183
Pears	395	368	460	476
Plums	128	117	135	116
Prunes	226	298	184	224
Almonds	12	9	8	15
Walnuts*	35	52	42	56

*California only.

Source: United States Department of Agriculture.

Acreage and production estimates of several important district crops, as of July 1, have recently become available. These estimates indicate that the output of wheat, rice, cotton, hops, beans, and potatoes probably will be larger than last year. Production forecasts of other grain and field crops approximate the harvests of last year. The California grape crop is expected to amount to around 2,219,000 tons. This estimate is 30 percent above output in 1936 and 15 percent larger than average annual production during the five year (1928-1932) period. All the other deciduous fruit and nut crops except cherries and plums are expected to be larger than last year.

Production and Employment—

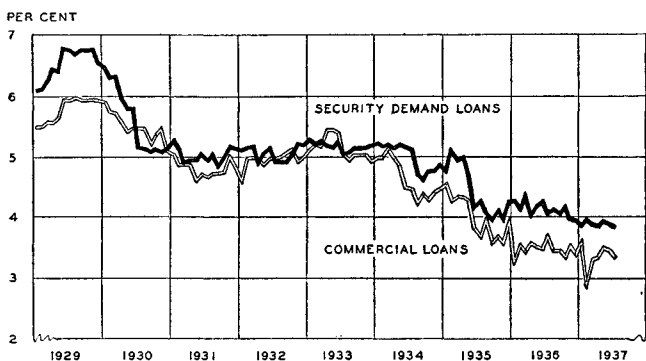
	Index numbers, 1923-1925 average=100			Without Seasonal Adjustment		
	1937	1936	1935	1937	1936	1935
Industrial Production						
Manufactures (physical volume)						
Lumber	89	86	75	107	100	90
Refined Oils*	—	—	—	161	159	153
Cement*	109	118	107	124	124	122
Meat*	122	113	113	—	—	—
Wheat Flour*	114	124	103	100	109	90
Minerals (physical volume)						
Petroleum*	—	—	—	101	99	88
Lead (U. S.)* †	..	76	69	..	75	70
Construction (value)						
Urban residential building permits in 18 cities	35	40	30	35	46	30
Public Works Contracts*	—	—	—	122	107	120
Miscellaneous						
Electric Power Production	192	194	178	205	198	191
Factory Employment and Pay Rolls						
Pacific Coast						
Employment	119	118	107	118	116	107
Pay Rolls	109	104	87	110	105	88
California						
Employment	132	132	118	129	128	116
Pay Rolls	122	120	99	123	120	99

*Daily average. †Prepared by Board of Governors of the Federal Reserve System.

BANK CREDIT

During the five weeks ending July 21, total earning assets of district city banks declined substantially, reductions being reported in both loans and securities. This decline was accompanied by a considerable shrinkage in total deposits, exclusive of interbank deposits.

The decrease in total investments was a continuation of the downward trend in evidence since last December, and in the aggregate these earning assets were lower in mid-July than at any time since September 1935. The decline during the five weeks ending July 21 took place principally in direct obligations of the United States. This item had increased sharply in the week ending June 16, which included the date of the mid-June Treasury financing, the increase at that time temporarily interrupting the steady decline in holdings of these securities reported since mid-February. Further slight declines were also reported in government guaranteed obligations and in other securities.



INTEREST RATES CHARGED BY SAN FRANCISCO BANKS
Weighted averages of mid-month figures.

The reduction in loans, on the other hand, constituted a reversal of the trend apparent during the preceding five months, when total loans of reporting member banks had increased from \$966,000,000 in mid-January to \$1,024,-

000,000 in mid-June. Reflecting the large volume of loanable funds available at district banks during that entire period, prevailing over-the-counter loan rates were low. During the recent period of decline in loans, low rates have also prevailed, indicating that the reduction in outstanding loans has been the result of factors other than the cost of funds to bank customers. An indication of the trend of over-the-counter loan rates is given in the accompanying chart. During the first six months of 1937 these rates have been, if anything, slightly lower than in 1936, and no upward tendency was evident from mid-June to mid-July.

The decline in over-the-counter loan rates since mid-1933 to the comparatively low level reported during recent months reflects the large volume of excess reserves acquired by district banks. The amount of reserves which member banks are required to maintain against their outstanding deposits has been doubled in the past year. Nevertheless, during the first two weeks of July, excess reserves averaged \$49,700,000 or 12 percent of the requirement for city banks and \$10,400,000 or 22 percent of required reserves for country banks. These funds, together with balances maintained with correspondents outside the district in excess of operating needs, will support a substantial further expansion in district member bank credit.

SECURITIES MARKETS

The decline in prices of bonds and stocks of Pacific Coast corporations, in evidence since early in the spring, slackened during June, and some revival took place in the flotation of new securities. In early July, prices of local corporate securities increased slightly and new issues were more numerous.

Yields on corporation bonds, although somewhat higher than in late 1936, are still relatively low. Nearly all high-grade issues are selling at prices which yield less than four percent, and even the more speculative issues yield less than six percent. These conditions indicate that funds for sound corporate expansion programs should not be difficult to obtain.

Yields on district municipal bonds increased by more than one-half of one percent during the first four months of the year, but declines since April have cancelled about a third of that rise. Yields on these securities currently are lower than at any time on record except for the last four months of 1936 and the first two months of 1937.

Prices of local stocks declined somewhat more than 15 percent from mid-March to late June. In early July, however, prices advanced slightly and the volume of trading also increased. Margin accounts continued to increase early in the period of declining prices, and at the end of April were 20 percent higher than at the end of December 1936. A small decline took place in May and June.

Most of the public utility refinancing induced by the low interest rates of the past few years was completed in 1936. Consequently, new issues were smaller in volume during the first six months of this year than in the first half of last year. Market weakness also influenced the decline subsequent to April. The financing of industrial firms through issues of both stocks and bonds has been somewhat heavier this year than last, however, and the proceeds have been used for new capital purposes to a greater extent than was the case in 1936.

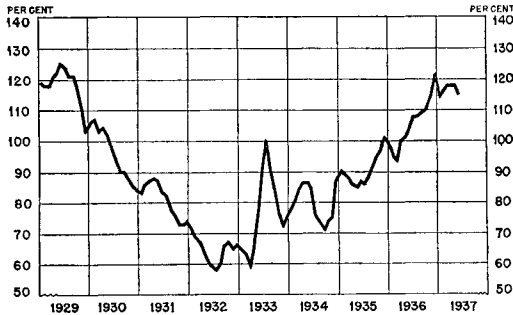
Distribution and Trade—

Index numbers, 1923-1925 average=100	With Seasonal Adjustment— 1937—1936			Without Seasonal Adjustment— 1937—1936		
	June	May	June	June	May	June
Retail Trade						
Department Store Sales (value)*						
Twelfth District	97	97	94	86	93	84
California	103	104	102	90	98	90
Los Angeles	97	97	95	84	89	83
Bay Region	108	109	109	95	105	96
San Francisco	105	107	106	92	102	93
Oakland	118	117	119	102	117	104
Pacific Northwest	76	75	72	70	74	66
Seattle	85	82	79	78	81	73
Spokane	64	62	61	57	57	54
Salt Lake City	79	88	76	71	96	68
Department Store Stocks (value)†	72	71	64	69	73	62
Furniture Store Sales (value)*‡	92	92	86	89	83	83
Automobile Sales (number)*						
Total	—	—	—	174	157	181
Passenger	—	—	—	164	145	172
Commercial	—	—	—	282	273	271
Carloadings (number)*						
Total	95	91	81	101	93	87
Merchandise and Misc.	108	102	98	111	96	101
Other	80	79	62	90	89	69
Intercoastal Traffic (volume)						
Total	81	84	79	77	82	75
Eastbound	58	67	66	54	63	61
Westbound	149	133	117	155	145	122

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

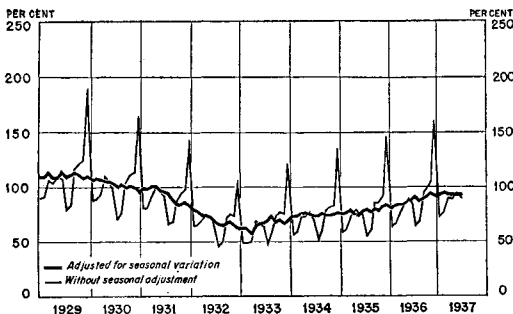
National Summary of Business Conditions

Prepared by the Board of Governors of the Federal Reserve System



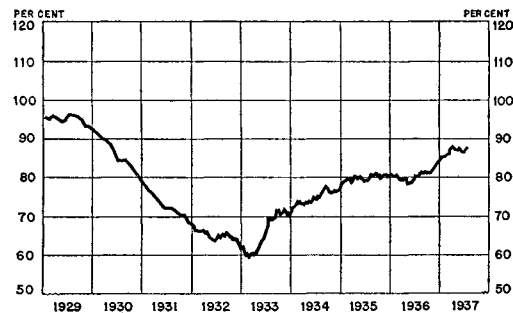
INDUSTRIAL PRODUCTION

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



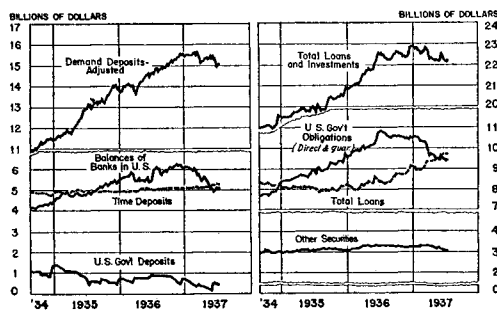
DEPARTMENT STORE SALES

Indexes of value of sales, 1923-1925 average=100. By months, January 1929 to June 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 July 17.



MEMBER BANK CREDIT

Wednesday figures for reporting member banks in 101 leading cities. September 5, 1934 to July 21, 1937.

ACTIVITY in most manufacturing industries and at mines continued in June at the May level, with allowance for seasonal influences, but the total output was decreased by labor difficulties in steel mills. In July, production at these mill increased.

PRODUCTION AND EMPLOYMENT

Volume of industrial output, as measured by the Board's seasonally adjusted index, was 115 percent of the 1923-1925 average in June as compared with 111 percent maintained in the preceding three months. The decrease was largely accounted for by the decline in steel production. Automobile production declined seasonally and lumber output showed little change. There was considerable reduction in activity at shoe factories and at sugar refineries, while textile production was close to the level of other recent months. At mines, output continued in about the same volume as in May.

Value of construction contracts awarded, which had declined in May, increased considerably in June, according to figures of the F. W. Dodge Corporation. There was a marked rise in contracts for public projects, and awards for private building increased somewhat, reflecting chiefly a larger volume of contracts for factories and for apartments.

Factory employment and pay rolls declined more than seasonally from the middle of May to the middle of June, largely as a result of strikes in the iron and steel industry. In most other manufacturing industries and also in nonmanufacturing lines changes in employment were chiefly of a seasonal nature.

AGRICULTURE

The July 1 cotton report of the Department of Agriculture showed an acreage of 34,192,000, which is larger than in any year since 1933, but considerably smaller than the average of 41,424,000 acres for the five years 1928-1932. Reports on other major crops indicate that production will be larger than last season and about equal to the average for 1928-1932.

DISTRIBUTION

Distribution of commodities to consumers was maintained in June at the level of other recent months, with allowance for seasonal influences. Department store sales showed a seasonal decline and there was little change in mail-order business. Sales at variety stores increased somewhat. Department store trade in the mid western industrial area in June and in the first half of the year showed large increases over a year ago than did sales in other parts of the country.

Freight carloadings declined somewhat further in June, reflecting largely a decrease in shipments of miscellaneous freight.

WHOLESALE COMMODITY PRICES

The general level of wholesale commodity prices, which had declined gradually from the beginning of April to the middle of June, advanced somewhat after that time. Prices of hogs and pork rose considerably and grain prices advanced during most of the period. Steel scrap prices increased sharply and prices of tin, zinc, and hides also advanced, while cotton goods and rubber continued downward. In the past week, prices for grains declined and cotton prices also moved lower.

BANK CREDIT

In the four-week period ending July 21 the volume of excess reserves of member banks increased from \$810,000,000 to \$870,000,000, owing principally to decline in the amount of required reserves resulting from a decrease in deposits at member banks in leading cities.

Commercial loans of reporting member banks continued to increase, both in New York City and in other leading cities, during the five weeks ending July 21. There was a substantial decline in adjusted demand deposits, mostly at New York City banks. This decline corresponded to decreases in holdings of United States Government obligations, following increases at the time of new treasury note issues at the middle of June, and in holdings of other securities. Loans to broker and dealers in securities, which increased in June, declined during the first three weeks of July.

MONEY RATES

Open-market rates on treasury bills and yields on treasury notes and bond declined in July to the lowest levels since March.