

# MONTHLY REVIEW

## BUSINESS CONDITIONS IN THE TWELFTH FEDERAL RESERVE DISTRICT

Federal Reserve Bank of San Francisco

September 1, 1937

### Review of the Month

Most Twelfth District crops are larger this season than in many years and prices being received by growers are generally high. Industrial production and distribution of goods, which were at high levels during the first half of 1937, were well maintained during July. Value of new private building projects undertaken was about the same as in June but somewhat below the spring peak.

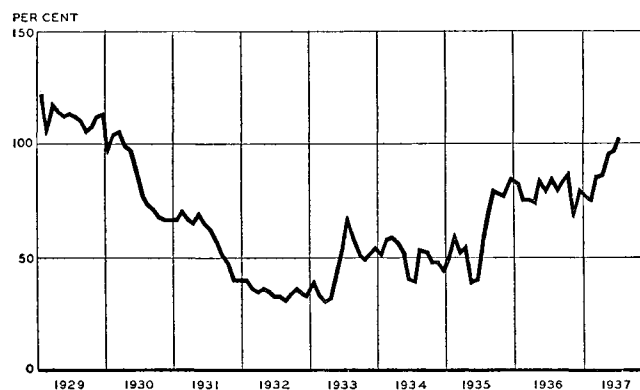
#### INDUSTRY AND TRADE

Volume of output of manufactured commodities during July was slightly larger than in June after allowance for the customary seasonal changes. Canning of fruit, vegetables, and fish expanded seasonally and adjusted lumber production continued to increase.

The California canned apricot pack, which was nearly completed in July, is currently estimated to have been larger than in any recent year and it may have exceeded the previous record pack of 4,200,000 cases in 1929. In Alaska, salmon canneries were active during July and the first half of August. Data reported to the Bureau of Fisheries up to August 14, by which date a large portion of the total pack had been completed, indicate a final pack about the same as the average for the preceding ten years but less than the record packs of 1934 and 1936. Output of other processed foods showed about the usual June-July changes. Meat packing and production of butter declined seasonally, canning of vegetables increased seasonally, sugar refining was unchanged, and flour milling continued to recede from the peak attained shortly after termination of the maritime strike last spring. Factories producing containers used largely in connection with food packing such as tin cans, glass containers, and box shooek were seasonally active.

Lumber output was larger in July than in any month since March 1930, after allowance is made for ordinary seasonal fluctuations. As shown by the accompanying chart, lumber production was curtailed last winter at the time of the maritime strike which caused mills dependent upon shipping by boat to reduce output or close down entirely. That curtailment in production took place during a period of growing demand for lumber owing to greater activity in the building industry, and, in addition, to forward placing of orders in anticipation of price advances. While maritime strike conditions affecting coast mills tended to divert a portion of new orders to eastern competitors, as well as to Twelfth District mills with rail facilities, the total volume of unfilled orders held by district producers continued to increase until late January when it was larger than in any month during the past eight years. This accumulation of orders helped place the Pacific Coast lumber industry in a favorable market position after termination of the ship-

ping strike early in February. Demand continued especially active in March and April and prices advanced further. Reflecting those conditions, lumber was produced and shipped at an increasing rate during the spring months, and in May, June, and July output exceeded new business. As a result, unfilled orders declined by July to about the level of a year ago. Prices weakened slightly in June and July and reports indicate that the expansion in production that had been taking place since last February was checked in the early part of August.



LUMBER PRODUCTION—Twelfth District  
Index of total monthly output, adjusted for seasonal variation.  
1923-1925 average=100.

Output of other manufactures for which information is available continued at a high level during July. Although new demand for steel during the summer months has been lower than last spring, filling of old orders that accumulated earlier in the year has helped maintain production at a comparatively high level. Daily average crude oil production, as well as manufacture of petroleum products, was about the same in July as in May and June. Important industries for which adequate information regarding month to month changes is not available include manufacture of aircraft, automobiles, motion pictures, tires and tubes, and pulp. Operations in all of those industries were at high levels earlier this year, however, and although reductions appear to have taken place in some of the specified industries during the summer months they were probably seasonal in character.

Excluding the lumber and canning industries, little change occurred in district factory employment and pay rolls during July. The number of wage earners employed in sawmills and logging camps increased slightly from mid-June to mid-July, but aggregate wages paid declined. This decrease in pay rolls, which reflected a reduction in the number of hours worked, was largely seasonal. In the canning industry, sharp advances in the number of employees and in total wage payments

accompanied seasonal expansion in packing of apricots in California and peas in the Pacific Northwest. The pack of apricots was unusually large and more of it came in July than is usual, with the result that total canner employment and pay rolls increased more than is customary in July.

The decline in new building that occurred in May and June did not continue during July. Residential building permits, adjusted for seasonal variation, were about the same in value as in June while private nonresidential construction increased considerably, owing partly to a contract for construction of a petroleum refinery. The value of new public building, which fluctuates widely from month to month, was about the same in July as the average of the first six months of the year.

The value of department store sales in July was the same as in each of the preceding three months, after allowance for seasonal factors, and was three percent larger than in July 1936, when consumer purchases were stimulated by the veterans' bonus payments. The tendency of furniture store trade has been definitely upward in recent months and in July this bank's seasonally adjusted index rose to 94 percent of the 1923-1925 average, the highest point since late 1929. Value of sales was six percent larger than a year ago. The number of new automobiles sold was seasonally lower than in any of the preceding four months and moderately lower than in July 1936, when sales were influenced by the bonus distribution.

#### AGRICULTURE

Weather conditions during July and early August were generally favorable to the growth and harvesting of crops. In the Pacific Northwest, however, an unusually early frost in August caused some damage to grains and potatoes. Marketing of agricultural products increased seasonally and, notwithstanding declines in recent weeks, prices paid farmers averaged higher during the first half of August than a year earlier. Reduced carryover of most feeds and foods contributed to this higher level of prices.

Some revisions were made on August 1 in the earlier estimates of output of several important district crops, but total indicated production was practically unchanged from the July 1 forecast. The estimated yield of wheat was increased 5,000,000 bushels to 119,000,000 bushels, a crop larger than in any year since 1928 and considerably above the 1928-1932 average of 109,000,000 bushels. Output of hops in the three Pacific Coast States was estimated on August 1 at 42,790,000 pounds, about 2,000,000 pounds below the estimate made a month earlier, but 84 percent larger than the small outturn last year. The first official forecast of the 1937 cotton crop, made as of August 1, indicated district production of 845,000 bales, an increase of 33 percent over the record crop of 1936. Reflecting the extension of cotton planting to land in California less suited to cotton production, the indicated yield has declined approximately 100 pounds this year to 475 pounds per acre. Notwithstanding this reduction, the yield in California and Arizona is substantially higher than the average of 223 pounds per acre for the United States as a whole.

Deciduous fruit crop prospects continued favorable during July. The important grape crop in California, which accounts for approximately three percent of the

farm cash income in the district, was expected to total 2,216,000 tons. Last year's small but profitable output was 1,723,000 tons and annual production during the five years 1928-1932 averaged 1,935,000 tons. Grape prices this season have been somewhat higher than last year, with the largest increases reported for raisins. Harvesting of apricots and cherries was practically completed by early August while marketings of peaches, apples, and pears became general late in the month. District output of apples was forecast at 48,655,000 bushels, a crop somewhat larger than last season but moderately smaller than in several earlier years. On this basis, the district crop will be about 24 percent of the anticipated crop for the entire country, compared with almost 40 percent in 1936. The crop promises to be of excellent quality, according to reports from growers.

The lamb crop was estimated to be about six percent smaller this year than last and, with the exception of the 1932 and 1933 lamb crops, the smallest since 1927. Although the number of breeding ewes was smaller this season than last in most district states, the principal reason for the reduction in lambs was the loss of large numbers of new born animals during the early lambing period, because of extremely cold weather in California. Late lambs (i.e. those to be marketed after August 1) were not affected as much as the early crop and made good progress during July. Prices paid growers for their lambs during the past spring and summer months have averaged somewhat higher than in the comparable period last year.

Reflecting smaller numbers of sheep shorn and lighter average fleeces, wool production in the Twelfth District, which accounts for slightly more than one quarter of the entire domestic clip, was estimated to be somewhat smaller than in 1936. This season's wool clip of 97,225,000 pounds is, with the exception of the 1932 clip, the smallest since 1927. Wool prices in recent months have been from 15 to 25 percent higher than a year ago and higher than in any year since 1929, and it now appears that the cash income of wool growers will be considerably larger than in 1936.

Current figures showing the importance of the sheep and lamb industry in the Twelfth District are not available, but in 1935 it returned about \$48,000,000 to growers and accounted for about five percent of total agri-

#### Production and Employment—

Index numbers, 1923-1925 average=100	With Seasonal Adjustment (1937—1936)			Without Seasonal Adjustment (1937—1936)		
	July	June	July	July	June	July
<b>Industrial Production</b>						
Manufactures (physical volume)						
Lumber†	102	96	84	107	109	89
Refined Oils*	—	—	—	163	161	152
Cement*	—	109	105	..	124	115
Meat*	116	122	116	—	—	—
Wheat Flour*	106	114	130	94	100	114
Minerals (physical volume)						
Petroleum*	—	—	—	101	101	87
Lead (U. S.)*‡	..	70	71	..	72	68
Construction (value)						
Urban residential building permits in 18 cities*	34	35	31	31	35	28
Public Works Contracts*	—	—	—	137	141	168
Miscellaneous						
Electric Power Production*....	200	197	182	224	211	203

\*Daily average. †Prepared by Board of Governors of the Federal Reserve System. ‡Revised series.

Note: Series on factory employment and pay rolls, usually published in this table, are in process of revision.

cultural cash income. Sale of lambs for slaughter and to be fed brought \$30,000,000 and marketing of wool about \$18,000,000 that year.

#### BANK CREDIT

The growth in loans of Twelfth District reporting member banks, which was interrupted during June and early July, was resumed in the four weeks ending August 18. While loans were expanding banks reduced their investments in securities, but a small net rise in total earning assets took place during the period under review.

The advance in total loans reflected largely an increase in demand for credit for commercial, industrial, and agricultural purposes and in mid-August these loans were higher than in late May when they were as large as at any time in recent years. A reduction during June and early July took place mainly at banks in San Francisco and Los Angeles, and it has been principally those banks which have reported increases during the past four weeks. At the present time loans of this class at San Francisco and Los Angeles banks are about equal to the spring peak while at banks in the larger Pacific Northwest cities and in Salt Lake City they are moderately higher. In the aggregate, loans for commercial, agricultural, and industrial purposes have increased substantially since late summer of 1936. Because advances for business purposes have been reported separately by city banks only since mid-May, direct comparisons with a year ago cannot be made. The increase in business loans over the year period is evidenced, however, by the gain of approximately one-fifth in loans other than those on securities and real estate.

The reduction in investments during the latter part of July and the first half of August continued the tendency in evidence during recent months. As a result of the decrease in investments and the increase in loans since the first of the year, the proportion of total earning assets represented by investments at reporting member banks

declined from 56 percent in December 1936 to 52 percent in the first half of August. The proportion of earning assets in the form of investments is still considerably higher than in most earlier years, however, the present 52 percent comparing with 47 percent in mid-1933 and 31 percent in mid-1929.

Most member banks in the Twelfth District continue to have moderate amounts of idle reserves in excess of legal requirements. Total reserve balances of district member banks increased \$20,540,000 during the four weeks ending August 18, reaching \$561,000,000. Additions to reserves of district banks in this period came about largely because local disbursements by Federal Government agencies totaled \$21,100,000 more than tax and other collections from within this district. Some increase in reserves of district banks also occurred because funds received from other districts by Twelfth District banks, business concerns, and individuals totaled \$7,300,000 more than funds sent out of this district by banks and their customers in payment of business and financial transactions. The increase in district bank assets because of these additional funds was partly offset by use of reserves in meeting customers' withdrawals of \$8,200,000 additional currency and coin for use in carrying on trade transactions and the like. An increase in currency in circulation reduces member bank reserve balances because the banks obtain the currency from the Federal Reserve Bank and pay for it by drawing upon their reserve accounts carried at the Reserve Bank.

Although member banks generally still have considerable amounts of idle reserves and are thus readily able to meet acceptable demands for credit, the amounts of idle funds are now much lower than before the March and May increases in reserves required to be maintained against deposit liabilities. Not only are excess reserves carried at the Federal Reserve Bank of San Francisco smaller than before the increases in reserve requirements, but idle funds carried with correspondents are also lower. Banks outside the leading cities carry most of their correspondent balances with Twelfth District city banks. Banks in the larger cities in turn carry some balances with other district city banks, but they also carry substantial amounts with eastern correspondents, especially in New York City. At the beginning of the year a considerable portion of bankers' balances both within the Twelfth District and at eastern correspondents was in excess of operating needs. At the time required reserves were increased on March 1 and May 1, banks used some of these idle funds to build up their balances at the Reserve Bank.

Since Twelfth District city banks not only had higher reserve requirements themselves but also were called upon to release some of the reserves they held for correspondents, they found it desirable to recall some of their idle balances from eastern centers, mainly New York. As a result, a considerable part of the idle funds which member banks carried in other districts early in the year has been used in building up required balances at the Federal Reserve Bank of San Francisco. This not only means that Twelfth District banks now have smaller amounts that can be recalled from New York correspondents, but from the standpoint of the eastern banks there has been considerable reduction in the amount they may be called upon to release to outside correspondents.

#### Distribution and Trade—

Index numbers, 1923-1925 average=100	With Seasonal Adjustment (1937—1936)			Without Seasonal Adjustment (1937—1936)		
	July	June	July	July	June	July
<b>Retail Trade</b>						
Department Store Sales (value)*						
Twelfth District .....	97	97	94	79	86	77
California .....	101	103	101	84	90	83
Los Angeles .....	95	97	92	82	84	79
Bay Region .....	108	108	110	88	95	89
San Francisco .....	105	105	107	86	92	88
Oakland .....	117	118	117	92	102	92
Pacific Northwest .....	78	76	73	61	70	58
Seattle .....	88	85	81	70	78	65
Spokane .....	63	64	60	49	57	46
Salt Lake City .....	77	79	67	56	71	49
Department Store Stocks (value)†	72	72	64	68	69	60
Furniture Store Sales (value)*‡	94	93	89	87	90	82
Automobile Sales (number)*						
Total .....	—	—	—	144	174	162
Passenger .....	—	—	—	133	164	152
Commercial .....	—	—	—	256	282	265
<b>Carloadings (number)*</b>						
Total .....	100	95	88	101	101	89
Merchandise and Misc. ....	103	108	96	109	111	102
Other .....	98	80	78	91	90	73
<b>Intercoastal Traffic (volume)</b>						
Total .....	64	81	68	70	77	75
Eastbound .....	55	58	52	60	54	58
Westbound .....	101	149	130	103	155	132

\*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

**T**OTAL VOLUME of industrial production and distribution of commodities to consumers showed little change from June to July, when allowance is made for the usual summer declines.

### PRODUCTION AND EMPLOYMENT

The Board's seasonally adjusted index of industrial production was 114 percent of the 1923-1925 average in July, the same as in June and four points lower than in March, April, and May. At steel mills, where output in June had been curtailed by strikes, activity increased considerably in the early part of July and was maintained at the higher level between the middle of July and the third week of August. Lumber production also increased in July, while output of plate glass showed a substantial decrease. Automobile assemblies declined seasonally. Output of nondurable manufactures decreased considerably, owing largely to a marked decline in activity at cotton and woolen textile mills. Meat packing also declined while flour milling and sugar refining increased. At mines, output of anthracite was reduced in July, while output of most other minerals showed little change.

Construction contracts awarded, as reported by the F. W. Dodge Corporation, were maintained in July at the level reached in June. Nonresidential construction expanded further, reflecting principally a large volume of awards for iron and steel plants and for railroad projects. Residential building showed a seasonal decline.

Factory employment increased somewhat from the middle of June to the middle of July, when a decline is usual, and factory pay rolls decreased less than seasonally. The largest increases in employment were in the steel industry and in the food industries, particularly at canning factories. Other manufacturing industries as a group showed somewhat less than the usual seasonal decline.

### AGRICULTURE

A cotton crop of 15,593,000 bales, representing an increase of 3,200,000 bales over last season, was forecast by the Department of Agriculture on the basis of August 1 conditions. Official estimates indicate that other major crops will be considerably larger than last season and about equal to the average for 1928-1932. Preliminary estimates by the Department of Agriculture indicate that cash farm income, including Government payments, will total \$9,000,000,000 for the calendar year 1937, an increase of 14 percent over 1936.

### DISTRIBUTION

Distribution of commodities to consumers in July continued at the level of other recent months, when allowance is made for the usual summer decline. Sales at department stores and variety stores showed slightly less than the seasonal decrease in July, while mail order sales declined somewhat more than seasonally. Freight carloadings increased, reflecting in part larger shipments of grains and forest products.

### COMMODITY PRICES

From the middle of July to the third week of August prices of grains and cotton declined substantially, while livestock and meats showed a further increase. Automobile prices were raised by most producers, carpet prices advanced, and there were increases in several industrial raw materials, including hides, zinc, lead, and steel scrap. Cotton goods and rubber declined somewhat.

### BANK CREDIT

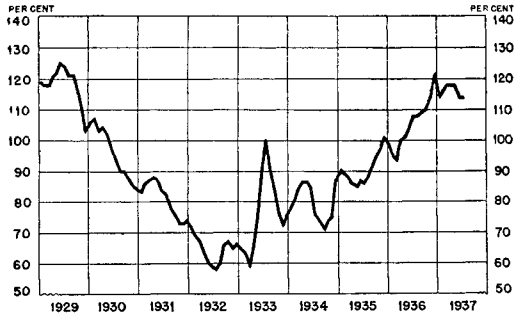
From the middle of July to August 4, excess reserves of member banks were sharply reduced from \$960,000,000 to \$700,000,000, but subsequently they increased to \$780,000,000 on August 18. These changes in member bank reserves reflected principally fluctuations in the volume of Treasury deposits at Federal Reserve banks, together with a seasonal increase in money in circulation. Excess reserves at New York City banks declined from \$230,000,000 to about \$40,000,000 and subsequently increased to \$130,000,000.

Total loans and investments of reporting member banks increased somewhat during the four weeks ending August 18, reflecting principally an increase of \$150,000,000 in commercial loans offset in part by a further decline in holdings of United States Government obligations, principally at New York City banks. The growth in commercial loans occurred both in New York City and in other cities and included the purchase by banks of a large portion of the \$60,000,000 of nine-month notes sold by the Commodity Credit Corporation on August 2.

United States Government deposits at reporting banks increased during the period, reflecting purchases by banks of treasury bills on a book-credit basis. Bankers' balances and other demand deposits showed further declines at New York City banks.

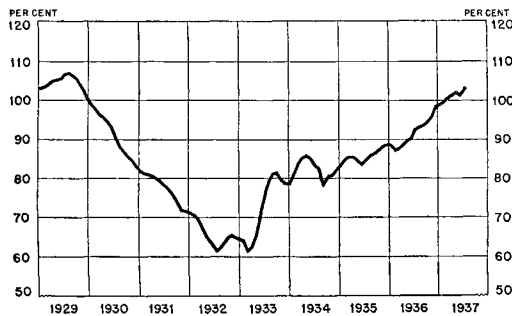
### MONEY RATES

Rates on Treasury Bills declined slightly after the middle of July, and open-market yields on Treasury notes and bonds also declined until early in August, but later there was a rise in yields. In the latter part of August discount rates were reduced from two percent to one and one-half percent at the Federal Reserve Banks of Atlanta, Chicago, and Minneapolis. The two percent rates had been in effect since early in 1935.



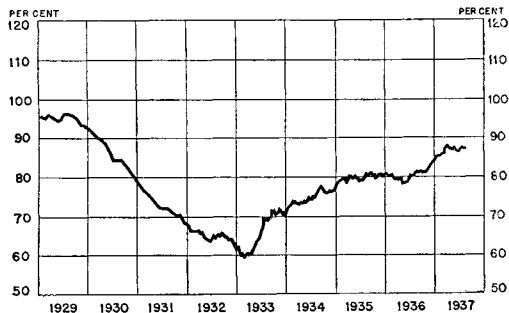
**INDUSTRIAL PRODUCTION**

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



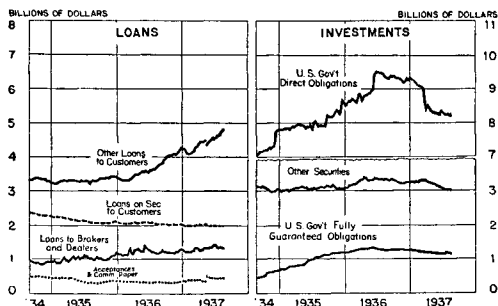
**FACTORY EMPLOYMENT**

Index of number employed, adjusted for seasonal variation, 1923-1925 average=100. By months, January 1929 to July 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 August 14.



**MEMBER BANK LOANS AND INVESTMENTS**

Wednesday figures for reporting member banks in 101 leading cities, September 5, 1934, to August 18, 1937. Loans on real estate and loans to banks excluded.