

MONTHLY REVIEW

BUSINESS CONDITIONS IN THE TWELFTH FEDERAL RESERVE DISTRICT

Federal Reserve Bank of San Francisco

January 1, 1938

Review of the Month

Industrial production and employment in the Twelfth Federal Reserve District declined further during November. Retail trade increased somewhat less than seasonally, but on the whole appears to have been relatively well maintained as in other recent months. The agricultural outlook was favored by greater than normal rainfall during November and early December. Prices received for crops being marketed were well below mid-year quotations, but agricultural income continued somewhat in excess of last year, owing to the larger volume of crops for sale.

INDUSTRY

During November business conditions in the Twelfth District continued to be dominated by the results of maladjustments which had their origin primarily in developments of last winter and spring. By the fall of 1936 business activity had recovered much of the depression losses, and industrial output was at a substantially higher level than at any time in the preceding six years. Drought conditions, however, had reduced the output of many agricultural products thereby increasing the costs of raw materials for a number of industries. Wage rates also advanced. Partly because of these increases in costs and partly because of the apparent strength in demand for most goods, prices of industrial products were also advanced. In the belief that increases in costs and prices would continue, a considerable amount of advance buying was done by fabricators and distributors including the larger retail outlets. Owing to this advance buying, an unusually large volume of unfilled orders was held by a number of industries, including the important lumber industry, during the spring of 1937.

During the spring months, after having covered their requirements for a longer than customary period in the future, fabricators and distributors reduced their advance ordering, and with subsequent declines in commodity prices during the summer and autumn, most buying was limited to current requirements. For several months, however, production continued at the high levels of early spring, and not until unfilled orders had been reduced substantially was output of some major district industries curtailed. This curtailment, which became extensive in August and September, continued through the month of November. Accompanying this reduction in output, industrial employment and pay rolls have also declined.

Curtailement of production has been chiefly apparent in a reduction in the number of hours worked per week, although the number of employees has also declined somewhat more than seasonally since the late summer. Particularly severe declines in output and employment have taken place in the Pacific Northwest where curtailment in the dominant lumber industry has been pronounced, but substantial decreases have also taken place in California where industrial activity is widely diversified.

In the lumber industry, with many mills curtailing their operations or closing down entirely, output was reduced in November to the lowest level since the strike of mill workers and loggers in 1935. Unfilled orders also continued to decrease, although the decrease was appreciably smaller than in other recent months. Stocks advanced slightly further and on November 30 were considerably larger in relation to the volume of orders received during the month than has been customary at this season. The marked increase in stocks of lumber during recent months has come at mills in the Western Pine Association area, where some rise in mill stocks is usual during the fall months.

Despite continued reports of extremely low vacancy ratios, a further reduction in the value of residential building permits took place during November and this bank's seasonally adjusted index declined to 22 percent of the 1923-1925 average. At that level the index was lower than in any month since February 1936. Private nonresidential construction, measured by the value of permits issued or contracts awarded, also declined further during November, and awards for public buildings continued at the relatively low levels of recent months.

Operations in the petroleum industry have not shown the tendency to decline during recent months that has been apparent in many industries. In fact, output of crude petroleum, which has been expanding almost continuously since January, increased further in November to a level 22 percent higher than in November 1936. Activity at refineries decreased in November, in part reflecting the seasonal reduction in consumption of gasoline and other refined products.

Production of wheat flour was reduced further in November, both domestic and foreign orders declining. Stocks of flour held by district mills are substantially lower than a year ago, when shipments were interrupted by the maritime strike, but have increased since the early summer. Livestock slaughter expanded moderately from 113 percent of the 1923-1925 average in October to 117 in November, a level approximately as high as in the comparable month last year.

The 1937 tuna pack in southern California is estimated at slightly more than 3,000,000 cases, compared with the previous record production of 2,700,000 cases in 1936. Prices for tuna during 1937 averaged moderately above 1936 levels, and although a reduction was announced December 1, quotations at present are still slightly higher than a year ago.

TRADE

Although value of department store trade in the district as a whole increased by slightly less than the usual seasonal amount during November, sales were only 1 percent lower than the January-October monthly average, after adjustment for seasonal variation. In California, where consumer purchases in the past few months have been maintained at a relatively higher level than in other district states, seasonally adjusted sales were about the same as last spring and summer, and were somewhat higher than a year ago. Pacific Northwest firms reported a greater than seasonal decline in trade, sales for the month being lower than in November 1936. Aggregate sales of reporting concerns in Arizona, Idaho, and Utah declined contra-seasonally, but on a daily average basis were 5 percent higher than in November last year. Inventories of department stores increased slightly more than seasonally during November, but the adjusted index was 1 percent lower at the end of November than at the end of September.

Furniture store sales adjusted for seasonal variation declined 2 percent in November, and were 7 percent lower than a year ago. Inventories were also reduced during the month but on November 30 were 12 percent higher than a year earlier.

WHOLESALE TRADE--Twelfth District Percentage changes in value of sales

1937	Monthly Sales Compared With		Cumulative 1937 Compared With 1936
	Previous Month	Correspond- ing Month 1936	
January	- 5	+16	..
February	- 3	+16	+16
March	+24	+24	+19
April	- 2	+21	+20
May	- 6	+19	+19
June	+ 4	+18	+19
July	0	+13	+18
August	+ 2	+12	+17
September	+ 4	+ 8	+16
October	- 3	0	+15
November	-14	+ 2	+14

Value of wholesale trade was 14 percent lower in November than in October, and sales were only slightly above the November 1936 totals. A substantial reduction in wholesale trade activity has been reported since last August, and gains during the autumn months over corresponding months of 1936 were small in comparison with the large year-period increases in sales shown earlier in 1937. Available reports indicate that inventories of district wholesalers generally were larger at the end of November 1937 than a year earlier.

Reflecting sharply curtailed shipments of a number of important commodities, principally forest products, freight carloadings declined by considerably more than the seasonal amount in November. Intercoastal waterborne shipments also declined, and were lower than in any month since the maritime strike last winter.

AGRICULTURE

Heavier than normal rainfall throughout the Twelfth District during November and the first three weeks of December was generally favorable to agriculture. The widespread rains improved livestock ranges and provided needed soil moisture for grains and vegetables. Damage to crops was of minor importance except in the case of unharvested rice in the Sacramento Valley. Prices paid farmers for their products were steadier in mid-December than at any time in several months. Cash farm income in the district, which has been affected by declines in prices during recent months, was estimated to be only slightly higher in November 1937 than in November 1936, although total income for the season to date is considerably higher than in the comparable period last year.

Reflecting primarily the record output of district crops and to some extent reduced demand from processors and consumers, stocks of most agricultural products are larger than a year ago. While a large portion of these stocks will be marketed before next year's crops are harvested, present indications point to larger than usual carry-over of a number of crops into the 1938-1939 marketing season. In the case of rice, earlier estimates of a record supply suitable for milling purposes were revised sharply downward during early December because of crop destruction and damage to quality resulting from heavy rains in the principal growing areas of California.

Livestock ranges were in good to excellent condition on December 1 except in southern California and parts of Arizona. Heavy rains in December improved conditions in those areas. Mild weather and ample new feed on most winter ranges have made necessary relatively little supplemental feeding thus far.

More cattle were in district feed lots on December 1, 1937 than on that date in any previous year except 1936, when an unusually large number of animals was being fed for market. The 1937 season was profitable for most operators, with marketings large and prices comparatively high during most of the year. The cost of feed now is generally lower than last year but prices paid for feeder cattle have been somewhat higher. Approximately 385,000 cattle are being fattened for market on district feed

Production and Employment—

	Index numbers, 1923-1925 average=100			With Seasonal Adjustment			Without Seasonal Adjustment		
	1937		1936	1937		1936	1937		1936
	Nov.	Oct.	Nov.	Nov.	Oct.	Nov.	Nov.	Oct.	Nov.
Industrial Production									
Manufactures (physical volume)									
Lumber*	66	77	69	65	82	68	65	82	68
Refined oils*	—	—	—	167	178	151	167	178	151
Cement*	107	101	138	107	116	138	107	116	138
Meat*	117	113	117	—	—	—	—	—	—
Wheat flour*	107	108	75	118	129	82	118	129	82
Minerals (physical volume)									
Petroleum*	—	—	—	107	105	88	107	105	88
Lead (U. S.)*‡	..	81	74	..	84	77	..	84	77
Silver (U. S.)*‡	..	91	99	..	90	106	..	90	106
Construction (value)									
Urban residential building permits in 18 cities*	22	26	37	23	28	39	23	28	39
Public works contracts*	—	—	—	109	101	147	109	101	147
Miscellaneous									
Electric power production*	201	201	176	190	200	187	190	200	187

*Daily average. ‡Prepared by Board of Governors of the Federal Reserve System.
Series on employment and pay rolls, usually published in this table, are in process of revision.

lots this year, of which approximately 70 percent are in Arizona and California. This number will be insufficient to supply local winter and spring markets, however, and as in other years demand will be met in part by the shipment into this region of additional fat cattle for slaughter from sections east of the Rockies.

On December 1 the number of lambs in district feed lots was 40 percent lower than a year ago, but approximately 20 percent higher than on the comparable date in 1935 or 1934. More than 80 percent of the lambs on feed in the district are in lots in Utah, Idaho, and California.

BANK CREDIT

Total earning assets of reporting member banks in the Twelfth District expanded considerably during the four weeks ending December 22, owing mainly to increased investments in United States Government obligations. Some of these securities were bought in the open market but most of them represented purchases of the mid-December issues of new Treasury bonds and notes. Open market purchases included both Government obligations and other securities. Loans of banks also increased moderately during this period.

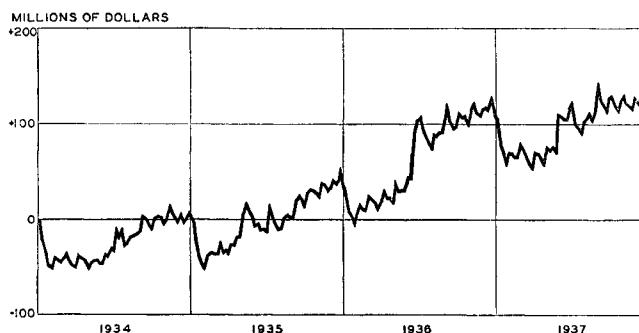
Moderate expansion in deposits of district banks in the four weeks ending December 22 reflected partly increased Government deposits resulting from the sale of new securities in mid-December. Considerable growth in time deposits also took place and, despite a reduction in demand accounts, total deposits of banks in the principal district cities increased to levels only slightly lower than at the beginning of 1937. Complete data of deposits at country member banks are not available for the second half of 1937, but present figures indicate little net change in their deposits over the year period.

The small net change in deposits of district banks during 1937 contrasts with the marked expansion reported in other recent years. From the beginning of 1933 to the end

of 1936, total deposits of district member banks increased by \$1,447,000,000. The principal factor in this expansion was the disbursement in this district by the Federal Government of \$1,080,000,000 more than was collected locally from taxes, sales of securities, and other sources. Funds to meet this excess of Treasury expenditures locally were obtained from tax collections and sales of securities in other areas, particularly New York. Another factor of large importance in building up district bank deposits during these years was the extension of bank credit locally through increases in investments and expansion of loans. Part of the increase in district bank deposits in those four years was canceled through net transfers of funds to other regions in payment of goods, services, and the like. The net outcome of all factors tending to increase or decrease bank deposits, however, was a rapid and practically continuous expansion in the district's purchasing medium.

The comparatively slight change in district bank deposits during 1937 reflects mainly the fact that net payments into the district by the Federal Government were smaller than in other recent years, and the fact that earning assets of banks did not change materially over the year period.

Changes in demand for currency within the Twelfth District are shown for recent years upon the accompanying chart. Some expansion in currency requirements was



DEMAND FOR CURRENCY—Twelfth District
Weekly changes, cumulated since January 1, 1934.

Distribution and Trade—

	Index numbers, 1923-1925 average=100			Without Seasonal Adjustment— 1937 1936		
	Nov.	Oct.	Nov.	Nov.	Oct.	Nov.
Retail Trade						
Department Store Sales (value)*						
Twelfth District	96	98	95	102	101	101
California	103	104	102	109	105	108
Los Angeles	97	99	95	101	101	99
Bay Region	108	107	109	115	107	117
San Francisco	107	104	107	116	103	115
Oakland	111	118	117	116	121	123
Pacific Northwest	73	74	75	75	84	77
Seattle	80	82	83	84	86	87
Spokane	56	66	61	53	95	58
Salt Lake City	73	86	73	80	92	81
Department Store Stocks (value)†	73	72	68	82	79	76
Furniture Store Sales (value)*‡	80	82	86	83	85	89
Automobile Sales (number)*						
Total	—	—	—	99	106	109
Passenger	—	—	—	97	98	108
Commercial	—	—	—	120	188	114
Carloadings (number)*						
Total	81	85	90	81	103	90
Merchandise and misc.	99	94	105	98	122	104
Other	57	71	71	59	80	73
Interoceanic Traffic (volume)						
Total	59	68	27	61	73	28
Eastbound	44	55	28	48	62	30
Westbound	114	106	24	104	111	22

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

apparent from early in 1934 to the middle of 1937, if allowance is made for the seasonally lower demand in the first half of the year. This growth in currency outstanding came about largely because of increased use for pay rolls and general business transactions. A particularly large rise during 1936 occurred at the time of and following payment of the Veterans' Adjusted Service bonds.

Since the early autumn of 1937, relatively little change in currency outstanding has taken place, although this is the season of the year when considerable increase ordinarily occurs. This customary fall expansion in money in circulation results from increased trade and business activity, a peak for the year being reached in the immediate pre-Christmas shopping period. Lack of expansion during the fall months of 1937 reflects lower pay rolls and general business, with the result that the pre-Christmas peak in currency demand was lower than 1937 Labor Day requirements, when demand for currency in the Twelfth District was greater than at any time in recent years.

Summary of National Business Conditions

Prepared by the Board of Governors of the Federal Reserve System

IN NOVEMBER, volume of industrial production continued to decline sharply, and employment and pay rolls also decreased. During the first half of November commodity prices declined further but for the past month they have been steady.

PRODUCTION AND EMPLOYMENT

Volume of industrial output, as measured by the Board's seasonally adjusted index, declined from 103 percent of the 1923-1925 average in October to 90 percent in November, reflecting chiefly a sharp reduction in the manufacture of durable goods. There was a further curtailment of activity at steel mills and output for the month was at a rate of 38 percent of capacity, a decline of one-third from October. In the first three weeks of December steel production was at about 28 percent of capacity. Output of lumber and plate glass also declined substantially in November, and automobile production showed considerably less than the usual seasonal increase. Production of nondurable goods, which had decreased by a substantial amount earlier this year, declined further in November, reflecting a continued reduction in output of textiles and shoes, partly offset in the total by an increase in activity at sugar refineries. Output of minerals, as well as manufactures, declined in November. There were marked decreases in output of bituminous coal and in iron ore shipments, while crude petroleum production continued in large volume.

Total value of construction contracts awarded, as reported by the F. W. Dodge Corporation, showed little change in November and the first half of December. Awards for privately-financed projects declined, reflecting chiefly a further reduction in residential building, while contracts for publicly-financed work increased.

Employment and pay rolls at factories showed an unusually sharp decline between the middle of October and the middle of November, and there were decreases also in the number employed in trade and other nonmanufacturing lines. The Board's seasonally adjusted index of factory employment was at 94 percent of the 1923-1925 average in November as compared with a level of 102 last summer and 96 in November last year. In the steel, machinery, lumber, and textile industries the number employed decreased by substantially more than the usual seasonal amount, and there was some decline at automobile factories, although an increase is usual at this season. There were declines also in the seasonally adjusted indexes for most other lines, except foods and tobacco which showed little change.

AGRICULTURE

Department of Agriculture estimates recently issued indicate that most crops will be about the same size as forecast earlier but that cash farm income will be lower than had been anticipated, largely because of price declines both for crops and livestock. Cash income in 1937 is expected to be \$8,500,000,000, as compared with \$7,918,000,000 in 1936. The increase over a year ago is due primarily to increased income from marketings of wheat, tobacco, and fruits and to larger Government payments.

DISTRIBUTION

Distribution of commodities to consumers, which earlier had been maintained, declined slightly in November. There was a slight decline in sales at department stores, and mail order sales decreased considerably, while sales at variety stores showed little change. Preliminary information for the first half of December indicates that department store sales increased by approximately the usual seasonal amount.

Freight carloadings declined by considerably more than the seasonal amount in November and the Board's adjusted index for that month was 71 percent of the 1923-1925 average as compared with 76 percent in October and an average of 81 percent in the first half of the year. The decline from October to November reflected principally marked decreases in loadings of coal and miscellaneous freight.

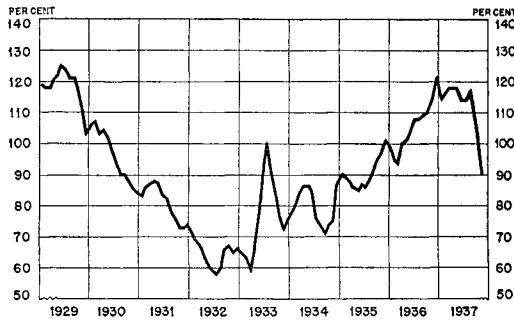
COMMODITY PRICES

The general level of wholesale commodity prices, which had declined sharply from the latter part of September to the third week of November, has shown little change since that time. Prices of nonferrous metals, leather, wood, textile yarns, and finished cotton goods have declined somewhat further in this period, while steel scrap, hides, rubber, cotton, print cloths, and bituminous coal have recently shown some advance.

BANK CREDIT

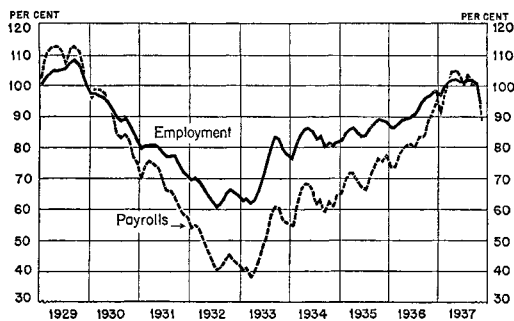
Excess reserves of member banks showed a small decline but for the first three weeks of December remained somewhat over \$1,000,000,000. The increase in demand for currency during December has been smaller than usual, reflecting largely the effects of the recent sharp decline in business activity and pay rolls.

Total loans and investments of reporting member banks in 101 leading cities increased somewhat during the four weeks ending December 15, reflecting a growth of \$190,000,000 in holdings of United States Government securities, mostly in New York City. A factor in this increase was the purchase by banks of the December 15 issues of Government securities. Commercial loans, which had begun to decline in October showed a further reduction.



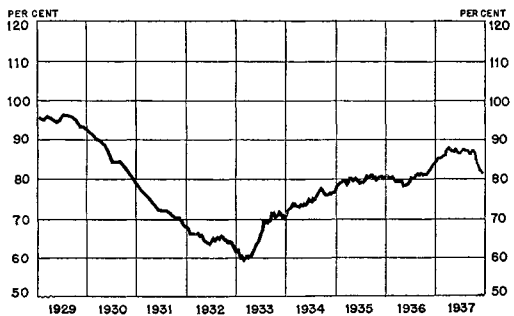
INDUSTRIAL PRODUCTION

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



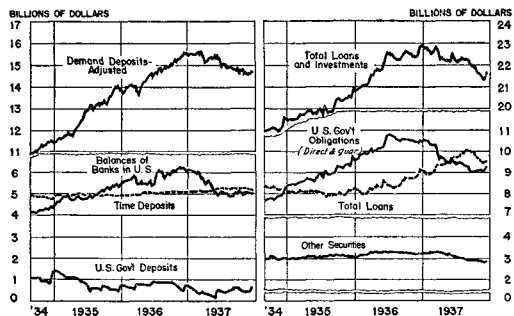
FACTORY EMPLOYMENT AND PAY ROLLS

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



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 December 18, 1937.



MEMBER BANK CREDIT

Wednesday figures for reporting member banks in 101 leading cities. September 5, 1934 to December 15, 1937.