

MONTHLY REVIEW

BUSINESS CONDITIONS IN THE TWELFTH FEDERAL RESERVE DISTRICT

Federal Reserve Bank of San Francisco

February 1, 1938

Summary

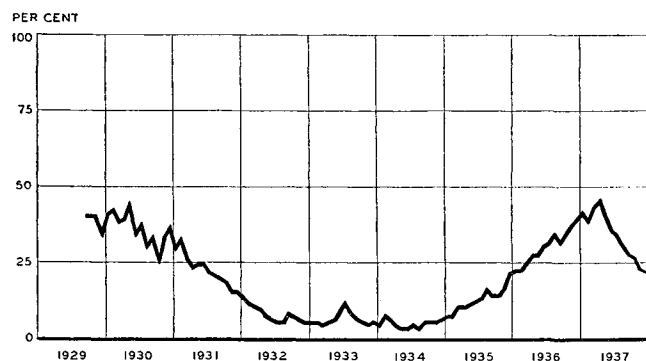
During the spring and early summer of 1937 industrial output and construction in the Twelfth Federal Reserve District reached the highest levels of recent years. This expansion was followed by substantial declines, however, and business activity generally was considerably lower in December 1937 than in December 1936. Expansion in residential building, which had begun in mid-1934 and extended through the spring of 1937, was checked in May, and the amount of new construction undertaken declined almost continuously during the remainder of the year. The increase in industrial output in the first part of the year resulted to a considerable extent from advance buying by fabricators and distributors in anticipation of increases in commodity prices. Commodity prices declined considerably after April, however, and by mid-year ordering by processors, wholesalers, and retailers had been sharply curtailed, since their heavy buying earlier in the year had covered requirements for a much longer than usual period. Production of district industries was well maintained throughout the spring and early summer to work off unfilled orders that had accumulated, but in July and August output began to decline, the reduction becoming widespread and severe during the remainder of the year. Retail trade continued relatively active during the closing months of the year, with the result that year-end inventories were considerably below the levels to which they had increased in September. Wholesalers also reported considerable decrease in inventories during the last quarter of 1937. The district's comparatively large agricultural income was an important factor sustaining retail trade despite sharp reductions in wage earner income. In addition, the Federal Government continued to spend more than it collected in this district, although the excess of local expenditures over collections was much smaller than in 1936.

INDUSTRY

Value of residential building in the Twelfth District reached a post-depression peak in March and April 1937, when permits exceeded any other monthly totals since 1929. After April, new residential building declined almost continuously and in December the seasonally adjusted index was 21 percent of the 1923-1925 average, compared with the spring peak of 45 and an average of 52 in 1929. To a considerable extent, the recent decline appears to have been a result of the rapidity with which costs of labor and materials, as well as other items entering into the final selling price of houses, were advanced during the winter and early spring of 1937. Comprehensive indexes of building costs in the residential field have not been compiled, but available information indicates that during the spring peak costs were close to 1929

levels. Prices of certain materials, such as lumber and clay products, have declined since spring, but wage rates have shown little tendency to change during the period.

The value of permits for private nonresidential building also declined during the second half of 1937, but the reduction was moderate. Contracts awarded for heavy engineering construction, which fluctuate widely from month to month, were considerably lower in 1937 than in 1936. The decrease in engineering construction did not represent a general decline during 1937 so much as the awarding of several unusually large contracts in the earlier year, such as those for the Los Angeles Metropolitan Water District and various reclamation projects. The largest project for which contracts were let in 1937 was the Ruby Dam, which is being constructed by the City of Seattle on the Skagit River.



RESIDENTIAL BUILDING PERMITS
Index of value of permits issued in 18 district cities, adjusted for seasonal variation. (1923-1925 average=100) By months, September 1929 to December 1937.

Changes in building and construction, both in the Twelfth District and in other sections of the United States, directly affected lumbering, which is the most important nonagricultural industry in this district. Expanding building activity in the first quarter of the year, supplemented by some special factors such as labor disputes affecting the lumber industry and price advances, resulted in considerable accumulations of orders at district mills, despite greatly increased production. In addition to strong domestic demand, the export market was active early in the year, lumber shipments to the Orient attaining relatively high levels in May and June. New orders began to decline late in the spring, however, and as the large volume of unfilled orders that had accumulated during the preceding winter was worked off, mills generally curtailed their operations or shut down completely, particularly in the last quarter of the year. Strikes added to the resulting unemployment, and consequent declines in wage earner income were reflected in some contraction in the volume of general retail trade. Mill inven-

ories of lumber, which were at a high level during the maritime strike early in 1937, were reduced in the Douglas fir area and brought into a more normal relationship with sales during the second half of the year. Stocks in the western pine area, however, increased somewhat more than seasonally after June, and on December 31 were 23 percent higher than a year earlier. Including the redwood area of California, aggregate stocks held by mills at the end of 1937 were 5 percent larger than on December 31, 1936.

ESTIMATED VOLUME OF INDUSTRIAL OUTPUT
TWELFTH DISTRICT

(Expressed as percentages of 1929 output)

	1929	1933	1935	1936	1937
Lumber	100	43	56	73	76
Refined oils	100	66	73	80	85
Motion pictures (cost)	100	76	128	138	174
Smelting and refining	100	31	46	65	89
Paper	100	87	108	120	135
Pulp	100	99	133	154	200
Automobile assemblies	100	48	92	129	135
Rubber tires	100	58	75	125	
Aircraft (value)	100		318	331	551
Steel	100	63	85	114	119
Cement	100	49	60	107	102
Canned fruit	100	93	103	110	124
Canned vegetables	100	69	117	143	149
Canned fish	100	82	95	119	112
Meat	100	111	100	114	117
Sugar	100	114	102	103	98
Flour	100	84	98	94	99
Butter	100	112	105	105	110
Cheese	100	127	135	143	157
Glass containers	100	111	139	173	210
Wool consumption	100	98	151	122	114

Output of cement, which was at high levels last spring, also declined in the second half of 1937 although not so rapidly as lumber production. Demand for cement was more fully maintained in the Pacific Northwest than in California and in December 1937 production in that section was moderately above the high levels of December 1936. In the district as a whole, however, output tended to reflect the decline in building and construction operations, and in the last quarter of the year was about 20 percent lower than in the last quarter of 1936 when output was larger than in any comparable three-month period.

During the first half of 1937, California steel mills were operating at capacity, large backlogs having been accumulated prior to April 1 when a general price increase went into effect. After that date, new business declined, and by September the volume of unfilled orders was lower than in the comparable month of 1936. Notwithstanding the reduction in operations in the second half, output of steel ingots in 1937 was higher than in any year on record. Stocks of iron and steel held by fabricators were not excessive at the year's end, according to available information, although considerable reduction in output of fabricators' products occurred in the latter part of 1937.

Domestic and foreign demand for refined petroleum products was well maintained throughout 1937. The high level of refinery operations was reduced moderately in November and December but production of crude oil increased slightly further. Inventories of crude oil showed only minor fluctuations in the latter part of 1937 and at the end of December were 11 percent smaller than a year ago. Gasoline inventories increased substantially during the fall of 1937, however, reflecting in part the seasonal decline in consumption, and at the end of the year were considerably larger than twelve months earlier.

Measured by the cost of films produced, operations in the motion picture industry were at record levels in 1937, being 20 to 30 percent higher than in 1936. Trade sources indicate, however, that declines in box office receipts during the fall months were followed by curtailment in production of motion pictures late in the year.

While the productive capacity of district pulp mills has been expanded almost continuously since 1925, particularly large gains occurred during the past two years. Daily capacity of mills in the three Pacific Coast states, which was between 3000 and 4000 tons in 1929 and in excess of 5000 tons in 1936, increased further in 1937. Output for the year was the highest on record, and approximately twice as large as in 1929.

Most district aircraft manufacturing concerns operated at capacity throughout 1937 and at the end of the year unfilled orders were still sufficient to assure capacity output for months ahead.

Near record sales of new automobiles in the Twelfth District during 1937 were reflected in a high level of operations at district automobile assembly plants, where most of the cars sold in this region are produced. Sharp curtailment in sales of both new and used automobiles in the closing months of the year, owing partly to reduced consumer income, was accompanied by reductions in output. In the rubber tire and tube industry output was also at record levels early in 1937 but in the latter part of the year production declined considerably. Reflecting the high rate of activity in the spring and summer, production of tires and tubes for the year as a whole was approximately the same as in 1936, the previous record year.

Furniture manufacturers were operating on a part time basis at the year's end, with new orders limited and stocks of finished goods considerably above normal. Earlier in the year output and employment were reported to be substantially higher than in 1936, but a decline in retail sales of furniture during the last third of the year was preceded and accompanied by marked curtailment of purchases by retail stores. As a result, accumulations of manufacturers' stocks of finished furniture occurred at both California and Pacific Northwest factories after the middle of 1937. Despite marked curtailment of output

Production and Employment—

Industrial Production	Index numbers, 1923-1925 average=100			With Seasonal Adjustment (1937-1936)			Without Seasonal Adjustment (1937-1936)			Annual Average 1937-1936	
	Dec.	Nov.	Dec.	Dec.	Nov.	Dec.	Dec.	Nov.	Dec.	1937	1936
Manufactures (volume)											
Lumber*	58	64	79	46	63	61	83	79			
Refined oils*	—	—	—	169	168	155	163	154			
Cement*	114	107	150	84	107	111	109	114			
Meat*	115	116	126	—	—	—	116	112			
Wheat flour*	106	107	89	106	118	90	114	109			
Minerals (volume)											
Petroleum*	—	—	—	107	106	88	99	89			
Lead (U. S.)*†	..	79	80	..	82	81	..	68			
Silver (U. S.)*†	..	119	113	..	128	114	..	99			
Construction (value)											
Urban residential building permits in 18 cities*	21	22	39	17	23	31	33	30			
Public works contracts*	—	—	—	149	109	186	132	175			
Miscellaneous											
Electric power production*	206	206	192	195	195	182	200	182			

*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.

in the last four months of the year, stocks at the end of December were generally larger than in September 1937 or December 1936.

In the processed food industries, production during 1937 was larger than in other recent years, and factories supplying containers for processed foods, such as tin cans and glass containers, were more active during 1937 than in any previous year.

Record or near record packs of canned fruits, vegetables, and fish were reported. Sales of these products by canners were well maintained in the first half of the year, and comparatively small amounts of preceding packs were being carried by the canners when 1937 output came onto the market late in the summer. Partly because retailers and jobbers had purchased heavily earlier in the year, sales of canned goods by packers were slow during the closing months of 1937, and unsold stocks were considerably larger on January 1, 1938 than at the beginning of other recent years. Prices of both canned fruits and canned fish have remained firm, despite inactive sales in the past few months.

Total volume of livestock slaughter was greater in 1937 than in 1936, but a downward tendency was apparent during much of the year. Retail meat prices advanced in the larger cities until mid-September and, although considerable decline occurred thereafter, prices averaged about 8 percent higher in mid-December than a year earlier.

Flour production at district mills fluctuated widely during 1937 but totaled about 5 percent more than in 1936 and was the largest since 1929. Millers' prices for flour declined from April to the end of the year, partly owing to reduced wheat quotations and to decreased orders from both domestic and foreign customers. Stocks of flour held by district mills were substantially lower at the end of 1937 than a year before when shipments were held up by the maritime strike, but were slightly higher than during the summer of 1937.

Production of butter and cheese increased moderately during 1937, while aggregate output of cane and beet sugar declined.

Factory employment and pay rolls continued to increase during the first four months of 1937 and remained

rolls declined even more markedly, reflecting sharply curtailed working hours as well as lay-offs. Despite these changes, employment in the year as a whole averaged 7 percent and pay rolls 15 percent higher than in 1936. While average industrial employment and pay rolls have increased in each of the past five years, in 1937 they were still moderately below 1929 levels. In the lumber industry, which has accounted for approximately one-fifth of total district manufacturing employment and pay rolls in recent years, particularly severe declines occurred in the last quarter of 1937. As a result employment in that industry for the year averaged only slightly higher than in 1936, although pay rolls increased 11 percent.

MINING

During the first few months of 1937 mine production of copper, lead, and zinc was stimulated by generally rising prices which approached 1929 levels. Gold production advanced for the fifth successive year and output of silver was also increased to record levels, a large proportion of the total amount recovered being a by-product of ores mined chiefly for their content of copper and gold. Most of these increases resulted from expanded activity at working mines, but a considerable number of idle properties were reopened and some new properties were

MINE PRODUCTION OF NONFERROUS METALS
TWELFTH DISTRICT

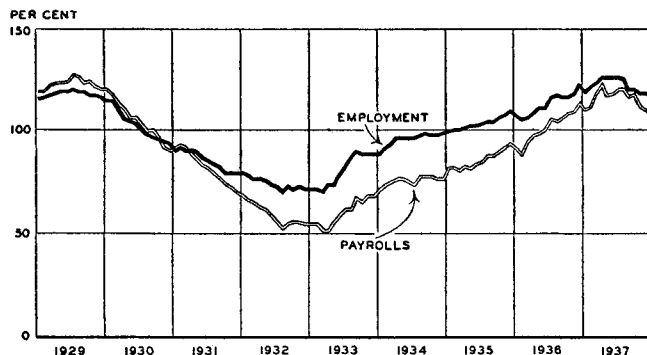
	Pre-depression high		Production	
	Year	Production	1936	1937
Gold (fine ounces)	1852	3,933	2,063	2,268
Silver (fine ounces)	1923	48,652	40,246	48,911
Copper (tons)	1929	665	414	575
Lead (tons)	1927	322	184	217
Zinc (tons)	1929	108	107	123

developed during the year. Following declines in market prices of nonprecious metals after April and marked decreases in demand during September and the following three months, output of mines producing copper, lead, and zinc as principal products was curtailed. On December 31, 1937 spot prices of these metals were from 33 to 40 percent lower than the spring peaks and no higher than in the fall of 1936.

AGRICULTURE

Estimated cash income of farmers and livestock growers in the Twelfth District was 10 percent larger in 1937 than in 1936 and, with the exception of 1928 and 1929, exceeded that of any year since 1920. Total 1937 income was about \$1,185,507,000. Receipts from crops amounted to \$692,325,000, income from livestock and livestock products was \$474,400,000, and benefit payments to growers under the Federal Government soil conservation program totaled \$18,782,000. Complete data are not available on production costs but estimates indicate that net farm income was somewhat higher than in 1936.

Weather conditions affecting agricultural production were favorable throughout the district during 1937. Early in the year unseasonably cold weather and heavy rainfall damaged citrus crops in California and Arizona and delayed crop growth throughout the entire district, but this poor early growing period was followed by almost ideal conditions for crop development. Winter snows and



INDUSTRIAL EMPLOYMENT AND PAYROLLS—California
Indexes of number employed and payrolls, adjusted for seasonal variation.
(1923-1925 average=100) By months, January 1929 to December 1937.

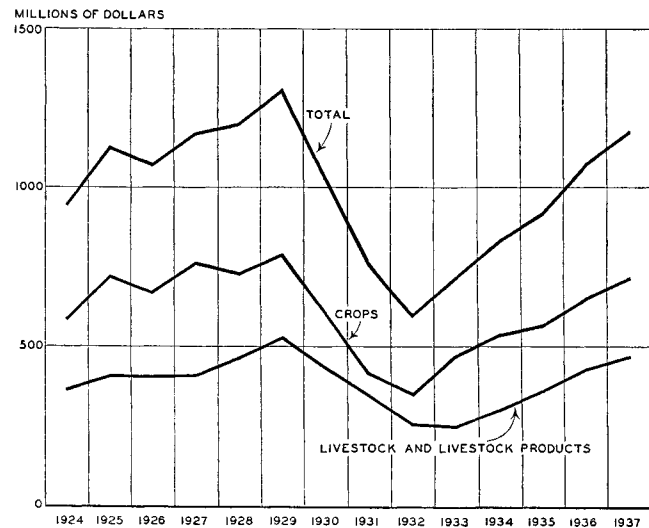
at high levels through August. A considerable reduction in the number of wage earners employed at district mills and factories occurred after that month and total pay

spring rains furnished ample soil moisture for dry land crops and for pastures and livestock ranges and provided adequate water for irrigation. Mild temperatures during summer and fall months encouraged crop growth, and excellent yields were obtained. Late fall rains caused some damage to rice and delayed the harvest of beans in California. On the other hand, these widespread rains aided the seeding and germination of fall sown grains and started the growth of new feed on livestock ranges.

The volume of crop production in the Twelfth District reached record proportions during 1937, owing to increased acreage of bearing fruit trees, an expansion in acreage planted to annual crops, and excellent yields. Record crops of almonds, apricots, beans, carrots, cauliflower, cotton, grapes, potatoes, and walnuts were harvested, while hops, lettuce, peas, pears, prunes, strawberries, sugar beets, and wheat were produced in near record volume. Output of citrus fruits was 8 percent smaller than in 1936. This was the most important decrease in crop production occurring in the district last year.

Prices paid farmers and livestock growers for their products reached a relatively high level during the spring of 1937. Moderate declines in quotations took place during the summer months as large crops became assured in this and other sections, but through August the comparatively high prices were the major factor producing substantially higher income than in corresponding months of 1936. In the last four months of the year, however, marked reductions in selling prices of district agricultural products occurred as general business activity de-

clined severely, and in November and December farm income was actually lower than in corresponding months of 1936. Notwithstanding the precipitous declines in these months, agricultural prices in the Twelfth District averaged somewhat higher in 1937 than in 1936, and this advance combined with the record volume of production accounts for the 10 percent gain over 1936 in total farm cash income.



CASH FARM INCOME—Twelfth District
Annual totals (including Federal payments).

CROP PRODUCTION AND CASH INCOME
TWELFTH DISTRICT
(In thousands)

	Production			Cash Income	
	1928-1932 Average	1936	1937	1936	1937
Grains					
Barley (bu.)	40,570	41,444	41,555	\$18,770	\$13,780
Oats (bu.)	24,648	30,445	27,939	5,091	4,841
Wheat (bu.)	108,874	112,571	121,141	70,690	89,065
Field Crops					
Alfalfa seed (bu.)	325	225	351	2,145	4,335
Beans (bags)	4,944	5,506	7,353	21,728	22,547
Clover seed (bu.)	204	170	311	2,025	4,925
Cotton (bales)	328	633	990	35,890	34,025
Cotton seed (tons)	146	281	440	8,165	8,375
Tame hay (tons)	11,844	11,948	11,693	20,335	25,435
Hops (lbs.)	28,011	25,156	44,399	6,910	7,440
Potatoes (bu.)	45,367	52,897	66,293	38,595	41,420
Rice (bu.)	7,442	8,566	10,150	3,700	5,300
Sugar beets (tons)	1,930	3,094	2,981	19,219	18,235
Fruits and Nuts					
Almonds (tons)	12	8	17	3,055	4,675
Apples (bu.)	55,007	44,752	50,150	26,895	35,375
Apricots (tons)	227	248	281	9,312	10,116
Cherries (tons)	50	62	50	4,710	6,380
Grapes (tons)	1,935	1,723	2,417	32,820	43,235
Peaches (bu.)	26,120	24,090	24,453	15,773	20,464
Pears (bu.)	16,475	19,152	19,269	11,914	10,816
Plums (tons)	64	64	63	1,917	2,268
Prunes (tons)	226	184	247	14,371	14,187
Walnuts (tons)	37	43	59	9,407	10,447
Citrus Fruits*					
Grapefruit (boxes)	1,617	4,067	2,950	4,035	3,250
Lemons (boxes)	7,208	7,787	8,102	24,529	25,521
Oranges (boxes)	33,022	33,049	30,063	52,700	56,400
Truck Crops					
Asparagus (tons)	85	98	87	9,856	9,506
Snap beans (tons)	20	41	49	2,762	3,192
Cantaloupes (crates)	11,600	7,916	8,775	8,912	10,955
Carrots (bu.)	5,459	9,906	10,091	6,088	6,502
Cauliflower (crates)	4,710	4,752	5,648	3,333	3,721
Celery (crates)	3,005	3,971	4,333	7,465	7,080
Lettuce (crates)	15,713	19,188	19,033	27,689	31,575
Onions (sacks)	2,988	3,241	3,692	2,129	3,984
Green peas (tons)	75	154	159	10,599	11,383
Strawberries (crates)	2,391	2,670	2,878	5,832	8,945
Tomatoes (tons)	298	605	615	11,035	9,964

*Crop year ends October 31 of years shown.
Source: United States Department of Agriculture.

TRADE

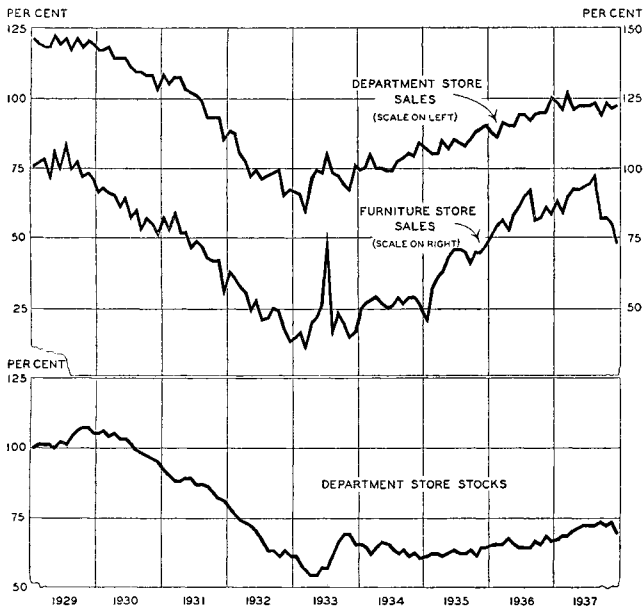
Cash income of livestock growers and producers of related products including milk and eggs was 12 percent larger in 1937 than in 1936. There was considerable decline in livestock prices during the last third of the year, but the average for 1937 was well above that for 1936. Higher average prices more than offset the effects of a smaller volume of marketings during 1937, resulting in the 12 percent gain in income from sales of livestock and livestock products.

Following upon a four-year period of expansion in consumer demand and advancing prices, the value of wholesale and retail trade attained post-depression highs during the winter of 1936-1937. Retail trade ceased to expand after the spring of 1937, but, with few exceptions, was comparatively well maintained during the remainder of the year, particularly in agricultural areas. Pronounced declines were reported late in the year, however, by retailers of lumber and building materials and by concerns handling the so-called durable consumer goods lines, such as radios, furniture, and automobiles.

Value of district department store sales in December 1937 was 3 percent lower than in December 1936 but the full seasonal expansion from November was recorded. Reductions in sales of furniture and housefurnishing goods, which account roughly for one-sixth of aggregate sales, were an important factor in the year-period decline. Department store inventories increased considerably on a seasonally adjusted basis from January through September and, although there was a sharply greater than

seasonal reduction in December, stocks were 4 percent higher at the close of 1937 than a year earlier.

During the first eight months of 1937 furniture store sales continued the sharp expansion in evidence since early 1935. In September, however, sales dropped contras seasonally to the lowest level in nearly a year and in the last quarter declined substantially further, being 8 percent lower than in the comparable period in 1936. Stocks of furniture retailers continued to increase until the end of October when they were 22 percent higher than in October 1936. Reductions during the last two



RETAIL TRADE—Twelfth District
 Indexes of value of sales and stocks, adjusted for seasonal variation. Department stores, 1923-1925 average=100; furniture stores, 1929 average=100. By months, January 1929 to December 1937.

months of the year were comparatively small, with the result that inventories were 14 percent larger at the end of December than a year earlier, whereas sales during December were 14 percent lower than a year before.

Although the upward recovery movement in sales of new automobiles was checked during the early spring months of 1937, the number of new passenger and commercial units sold in the district during the year was only 4 percent lower than in 1936. Sales tendencies during the fourth quarter were obscured to some extent by changes in manufacturers' assembly schedules, but in December the number of new passenger cars sold was only half as large as in December a year ago.

Sales of district wholesalers declined considerably during the second half of 1937. In the preceding winter and spring months their customers had covered future requirements to a much greater extent than usual and, with prices tending to fall after mid-year, purchases of most retail stores were restricted to a minimum. Stocks held by wholesalers increased through the summer and at the end of September were relatively heavy in most lines of trade. Considerable reduction in inventories of wholesalers had been effected by the year end but at that time stocks were generally as large as at the end of 1936 while sales were at a moderately lower level.

Reflecting the slackening in industrial activity, district railway freight traffic declined sharply during the last half of 1937. Curtailed log and lumber shipments accounted for a large proportion of the decline. During November and December total loadings increased moderately, however, owing principally to an upturn in shipments of assorted merchandise which were approximately the same in December 1937 as in December 1936.

CREDIT

Banking developments in the Twelfth District during 1937 differed considerably from those of the preceding several years. Investments of member banks, which had expanded substantially from 1933 to the end of 1936, declined during 1937, much of the reduction taking place in the spring. Total loans expanded by an amount greater than in 1935 or 1936. After increasing substantially in other recent years, deposits increased only slightly in 1937, an actual decrease taking place in demand accounts which constitute the principal purchasing medium of the general public. Reserve balances of member banks increased further, but excess reserves were considerably lower at the end than at the beginning of the year. Interest rates on loans reported by district city banks remained practically unchanged at the unusually low levels to which they had been reduced by late 1936.

Disbursements of the United States Treasury in the Twelfth District continued to exceed local collections by a substantial amount in 1937, the net excess totaling \$157,000,000. This amount was considerably smaller, however, than the total of \$453,000,000 in the preceding year or the average of \$215,000,000 in the four years 1932-1935. Notwithstanding the reduction, net United States Treasury disbursements continued to be the principal factor in the increase of district member bank reserve balances in 1937. The tendency of Treasury payments to increase local banking funds was partially offset,

Distribution and Trade—

	Index numbers, 1923-1925 average=100			With Seasonal Adjustment (1937—1936)		Without Seasonal Adjustment (1937—1936)		Annual Average 1937 1936
	Dec.	Nov.	Dec.	Dec.	Nov.	Dec.		
Retail Trade								
Department store sales (value)*								
Twelfth District.....	97	96	100	165	102	171	97	93
California.....	103	103	108	175	109	183	103	99
Los Angeles.....	93	97	102	154	101	168	98	93
Bay Region.....	110	108	113	193	115	197	108	105
San Francisco.....	106	107	109	183	116	189	105	103
Oakland.....	125	111	124	228	116	226	118	115
Pacific Northwest.....	75	73	76	129	75	131	75	72
Seattle.....	83	80	85	149	84	152	84	79
Spokane.....	57	56	60	95	53	99	61	60
Salt Lake City.....	83	73	79	158	80	152	79	74
Department store stocks (value)†...	69	73	66	64	82	61	71	65
Furniture store sales (value)*†... 	73	80	83	105	83	120	86	83
Automobile sales (number)*								
Total.....	—	—	—	95	99	177	132	137
Passenger.....	—	—	—	90	97	177	125	130
Commercial.....	—	—	—	146	120	187	212	216
Carloadings (number)*								
Total.....	85	81	81	68	81	101	90	85
Merchandise and misc....	104	99	113	85	98	92	102	97
Other.....	60	57	85	48	59	67	75	70
Intercoastal Traffic (volume)								
Total.....	52	59	0	50	61	0	63	65
Eastbound.....	41	44	0	38	48	0	47	55
Westbound.....	92	114	0	87	104	0	116	98

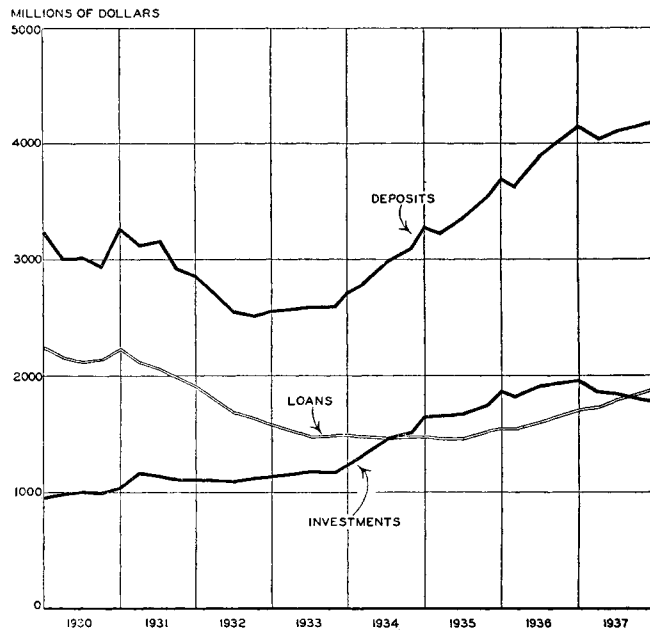
*Daily average. †At end of month. ‡1929 average = 100.

however, by net transfers of funds to other regions in settlement of commercial and financial transactions. The net outflow because of such interdistrict transfers was \$90,218,000 during 1937. Other factors affecting bank reserves, such as demand for currency, showed little net change, and member bank balances with the Federal Reserve Bank of San Francisco increased \$70,349,000 in 1937 compared with an increase of \$191,321,000 in 1936.

While member bank reserve balances increased further during the year, excess reserves, which may be used by banks in making additional loans and investments, declined approximately \$50,000,000 to a daily average of \$70,300,000 during December 1937. This reduction, in the face of further growth in total member bank reserve balances and little or no change in the deposit total against which reserves must be maintained, reflects an increase of 33 1/3 percent in legal reserve requirements early in the year, in accordance with action taken by the Board of Governors of the Federal Reserve System. The increase, half of which became effective on March 1 and half on May 1, absorbed approximately \$120,000,000 of excess reserves in the Twelfth District. While most member banks in the district had adequate excess funds with which to meet these additions to their required reserves, a number found it necessary to make minor adjustments. Funds in excess of operating requirements were withdrawn by country banks from their balances with city correspondents in this and other districts, while local city banks also drew upon idle balances with correspondents outside the district. Some banks disposed of earning assets to meet the increased reserve requirements, but the sharp decline in securities holdings during the spring

months appears to have represented primarily efforts to take advantage of a possible change in status of the bond market. Discount facilities of the Federal Reserve Bank of San Francisco were also utilized to a minor extent, the maximum advances to member banks outstanding on any one day amounting to \$2,909,000 on May 4.

Total deposits of district member banks, which had increased substantially during recent years, showed but



CONDITION OF ALL MEMBER BANKS—Twelfth District
Call report data; December 31, 1937 figures preliminary.

Condition of Reporting Member Banks

Twelfth District
(In millions of dollars)

Assets	Jan. 26 1938	Dec. 29 1937	Dec. 30 1936	Dec. 31 1935
Loans and investments—total...	\$2,111	\$2,141	\$2,202	\$2,156
Loans—total	1,033	1,049	979	938
Commercial, industrial, and agricultural loans:				
On securities.....	40	41	*	*
Otherwise secured and unsecured.....	324	336	*	*
Open market paper.....	40	37	*	*
Loans to brokers and dealers in securities.....	17	16	24	13
Other loans for purchasing or carrying securities.....	57	60	*	*
Real estate loans.....	372	373	369	368
Loans to banks.....	3	3	1	1
Other loans:				
On securities.....	76	78	*	*
Otherwise secured and unsecured.....	104	105	*	*
U. S. Government direct obligations.....	661	676	712	728
Obligations fully guaranteed by U. S. Government.....	129	125	153	135
Other securities.....	288	291	358	355
Reserve with Federal Reserve Bank.....	330	319	290	183
Cash in vault.....	20	23	22	19
Balances with domestic banks.....	220	193	239	196
Other assets—net.....	207	201	234	231
Liabilities				
Demand deposits—adjusted.....	887	881	924	778
Time deposits.....	1,032	1,038	1,021	1,041
U. S. Government deposits.....	60	62	68	103
Inter-bank deposits:				
Domestic banks.....	243	240	290	257
Foreign banks.....	13	13	13	10
Borrowings.....	0	0	0	0
Other liabilities.....	323	319	352	279
Capital account.....	330	324	319	317

*Comparable figures not available.

little net gain during 1937, a moderate decline in demand deposits being slightly more than offset by some further expansion in time accounts. Two factors were principally influential in interrupting the growth of total deposits, first, the smaller net Treasury disbursements in the district and second, the absence of any material change in earning assets over the year period. To a considerable extent, funds disbursed by the Treasury are received by individuals and firms and are ultimately deposited in banks, thus adding to district deposit volume. Collections by the Treasury are usually received in the form of checks drawn upon deposit accounts and consequently tend to reduce the deposit volume. When disbursements exceed collections, as has been the case in recent years in the Twelfth District, the Treasury transfers to this region funds obtained from tax receipts and the sale of securities in other districts, and a net increase in local deposits tends to take place. As has been indicated in a foregoing paragraph, this factor was much less important in 1937 than in any other recent year.

The expansion in deposits from 1933 through 1936 was also attributable in considerable part to the increase in total loans and investments during those years. Banks extend loans by crediting the deposit accounts of borrowers, and purchases of securities from the general public and from agencies issuing new securities, including the United States Government, are made in substantially the same manner. In 1937, there was practically no change

in total loans and investments of Twelfth District member banks, whereas in the preceding three years large increases had taken place. Owing largely to the lack of change in earning assets of banks and to the comparatively small net Treasury disbursements during 1937, total deposits increased only slightly.

While earning assets remained relatively stable in total during 1937, the composition of that total changed considerably. Investments, which have accounted for much of the substantial increase in earning assets in recent years, declined \$174,300,000. This decline was slightly more than offset, however, by an increase of \$190,100,000 in loans, and on December 31, 1937 loans amounted to 51.4 percent of total earning assets of district member banks compared with 46.3 percent a year earlier. Investments in Government obligations declined \$61,300,000 during the year and holdings of other securities were reduced \$113,013,000. Loans in the "all other" classification, which consist principally of advances for commercial, industrial, and agricultural purposes, but also consist of a variety of other types of advances including personal instalment loans, increased \$118,400,000 compared with an expansion of \$107,100,000 in 1936. Loans secured by real estate advanced \$46,600,000. As in the preceding year, almost the entire expansion was reported by banks outside the leading cities and came largely in advances secured by urban property, loans on farm land increasing only \$1,800,000. Loans on securities increased \$20,500,000 in 1937. Loans to brokers and dealers in securities, included in the total of loans on securities, declined \$12,000,000. This reduction in brokers' borrow-

ings from local banks accompanied the severe recession in prices of stocks during the late summer and early fall.

SECURITIES MARKETS

Prices of shares traded on Pacific Coast stock exchanges, which increased 30 percent in 1936, advanced further in early 1937. Turnover attained a post-depression peak in late January and the first week of February, but in the following months a marked decline in activity occurred and was accompanied by a moderate recession in prices. After mid-August a sharp decline in prices took place and further decreases occurred during the remaining months of the year with the result that average prices of Pacific Coast stocks were about 40 percent lower in December 1937 than in December 1936. Except for brief periods of active trading, particularly on days of unusually sharp price declines, daily average turnover was at low levels in the closing months of the year.

Changes in loans by brokers to their customers to finance the purchase of securities on local and eastern exchanges corresponded roughly with changes in securities prices. An expansion of nearly 20 percent in the first three months of 1937 was followed by irregular fluctuations until September. Considerable declines occurred in the last four months of the year and at the end of December loans by brokers were approximately 23 percent lower than a year earlier. Brokers also liquidated a portion of their indebtedness, a net reduction of 21 percent in borrowings from banks being reported over the year period by local firms and local branches of firms having their head offices outside the district.

Summary of National Business Conditions

Prepared by the Board of Governors of the Federal Reserve System

INDUSTRIAL output declined further in December and, according to preliminary reports, showed little change in the first three weeks of January. Prices of raw materials, which had declined sharply in October and November, have been maintained since that time.

PRODUCTION

Volume of industrial production declined further in December and the Board's seasonally adjusted index was at 84 percent of the 1923-1925 average as compared with 89 in November. The decline reflected chiefly a continued sharp curtailment of activity in the durable goods industries. Steel ingot production averaged about 26 percent of capacity, output of automobiles and plate glass was reduced considerably, and production of lumber and cement also declined. Total output of non-durable goods declined seasonally. There was a sharp decrease in output at silk mills, and cotton consumption declined further. At woolen mills and shoe factories, however, output was maintained, following a considerable period of sharp decline. Activity at sugar refineries increased further. Mineral production in December, as in other recent months, was at a high level. Output of crude petroleum and bituminous coal declined seasonally, while anthracite production increased somewhat.

In the first three weeks of January output of steel and automobiles increased somewhat from the extreme low levels reached in the latter part of December.

Value of construction contracts awarded in December continued in about the same volume as in the preceding three months. During this period there was a decline in awards for privately-financed projects, reflecting in large part further reductions in residential building, while publicly-financed work increased.

EMPLOYMENT

Factory employment and pay rolls showed further declines between the middle of November and the middle of December, and employment at mines, on the railroads, and in the construction industry also continued to decrease. The decline in the number employed at factories was larger than in earlier months in industries producing durable goods, and was particularly marked in the steel, machinery, and automobile industries. For the nondurable goods industries as a group, the decline in December was about the same as in each of the previous three months, after allowance for seasonal changes. There was some increase in employment at shoe factories and little change at plants producing tobacco products, while most other industries in this group showed further decreases.

DISTRIBUTION

Department store sales increased in December by about the usual seasonal amount, and the Board's adjusted index was 90 percent of the 1923-1925 average as compared with 91 percent in November and an average of 93 percent in the first ten months of the year. Mail order business and sales at variety stores showed somewhat more than the seasonal increase, while sales of automobiles declined substantially. Preliminary reports indicate that in the first half of January sales at department stores were at about the same level as a year ago.

Railroad freight carloadings continued to decline in December, and in that month were 18 percent lower than the average for the first half of the year, making allowance for usual seasonal change.

COMMODITY PRICES

Wholesale prices of basic commodities, after declining sharply in the autumn, showed little change in December and the first three weeks of January. Grains, cotton, print cloths, steel scrap, and bituminous coal increased somewhat, while leather, rayon, and woodpulp prices were reduced. Prices of a wide variety of finished industrial products showed further declines, and livestock products continued to decrease sharply.

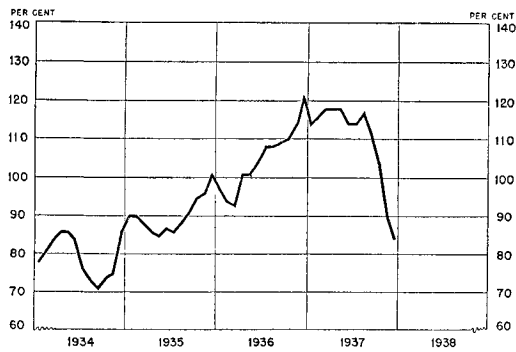
BANK CREDIT

Excess reserves of member banks increased in the four weeks ending January 19 from \$1,010,000,000 to \$1,370,000,000 and were larger than at any time since May 1. The post-holiday decline in money in circulation, which accounted for this growth of excess reserves, was larger than the increase that occurred before Christmas.

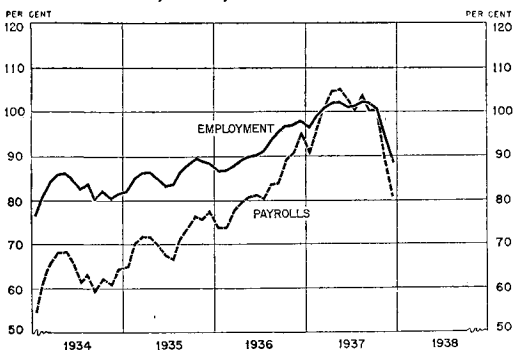
The volume of loans at reporting member banks in 101 leading cities declined sharply in the five weeks ending January 19, while their holdings of investments showed little net change. Declines occurred in loans to security brokers and dealers and in commercial loans, which decreased both in New York City and in other leading cities. Interbank balances were built up during the period, while other deposits decreased somewhat, reflecting largely the repayment of bank loans, partly offset by a return flow of currency from circulation.

MONEY RATES AND BOND YIELDS

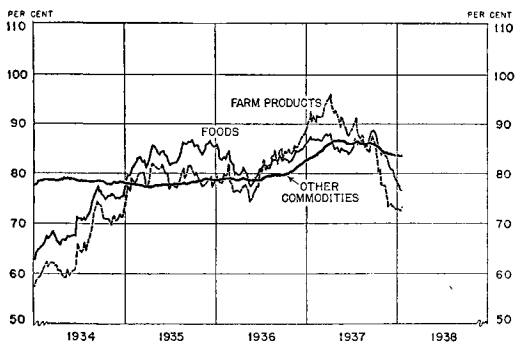
The average rate on new issues of 91-day Treasury bills continued in January at less than $\frac{1}{8}$ of 1 percent, and yields on Treasury notes and bonds declined to new low levels for recent months. Yields on the highest grade corporate bonds also declined somewhat, while those on the lower grade railroad issues rose.



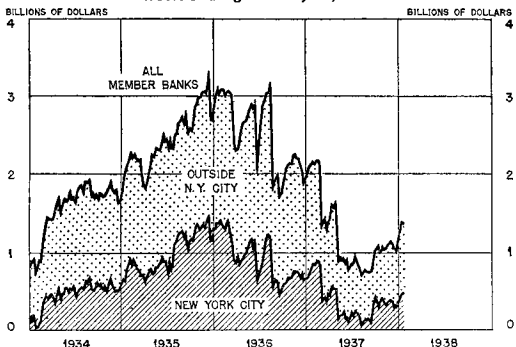
INDUSTRIAL PRODUCTION
Index of physical volume of production, adjusted for seasonal variation, 1923-1925 average=100. By months, January 1934 to December 1937.



FACTORY EMPLOYMENT AND PAYROLLS
Indexes of number employed and payrolls, without adjustment for seasonal variation, 1923-1925 average = 100. By months, January 1934 to December 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, 1934 to week ending January 15, 1938.



EXCESS RESERVES OF MEMBER BANKS
Wednesday figures of estimated excess reserves for all member banks and for selected New York City banks, January 3, 1934, to January 19, 1938.