

# MONTHLY REVIEW

## BUSINESS CONDITIONS IN THE TWELFTH FEDERAL RESERVE DISTRICT

*Federal Reserve Bank of San Francisco*

*March 1, 1938*

### **Review of the Month**

The sharp decline in district business activity, which was evident during the last four months of 1937, was checked in January. Industrial production, employment, and pay rolls were reduced further, but the curtailment was relatively slight. Value of retail trade declined moderately in January and continued to decrease during the first three weeks of February. Seasonally adjusted figures of new residential building, which had fallen by more than 50 percent from April to December last year, increased substantially in January of this year. Preliminary data for February, however, point to a much smaller than seasonal expansion. Although the volume of agricultural products marketed was larger than in January 1937, district cash farm income was somewhat lower than a year ago, reflecting the substantially lower level of prices of most agricultural commodities.

#### **INDUSTRY**

New residential building, as measured by the value of permits issued in 18 larger district cities, increased sharply in January, the seasonally adjusted index advancing to 32 percent of the 1923-1925 average from 21 percent in December. This increase, which was spread throughout the district, was equal to half of the decline that had taken place during the preceding eight months. Compared with a year ago, the index in January showed a decrease of 22 percent which was markedly less than the year period reduction of 46 percent in the index for December. Preliminary reports indicate that expansion in new residential building slowed down during February, perhaps because of stormy weather, and the seasonally adjusted index is estimated to have declined to approximately 27 percent of the 1923-1925 average. At that level, the index would be higher than in October, November, or December of last year. Value of private nonresidential building permits in January also increased and permits issued for alterations and repairs were only slightly lower than the relatively large December total. Value of public building initiated during January was higher than in any month since March 1937.

Output of lumber declined seasonally in January, the adjusted index of production remaining unchanged at 55 percent of the 1923-1925 average. Production and employment had been curtailed almost continuously during the preceding five months because of decreasing demand for lumber from the principal consumers including the building, railroad, and wood fabricating industries. Orders were unchanged from the seasonally low level of December and were 24 percent below the total reported in January 1937. As is customary during the winter, new orders exceeded production and mill stocks declined further. According to trade comment, stocks at retail yards

are not excessive at the present time, even in relation to the curtailed volume of sales. With reduced demand for lumber and with prices tending to decline since last summer, there has been no incentive for retailers to maintain large stocks. Prices continued to decline during January, and early in February prices at the mill for Douglas fir and ponderosa pine, which account for about four-fifths of the total district output, ranged from 4 to 25 percent below the highest returns received in 1937, when quotations were at a peak for recent years.

Output of crude petroleum continued to increase in January and February, daily average production approaching that of February 1930 when restrictions on output in certain fields were temporarily removed in order to establish a basis for prorating output during the period of curtailment which began March 1, 1930. The recent advance in output, which began early in 1937, largely reflects sharply expanding output in the Wilmington field. Wells were first brought into production in that field in January last year, and by February 26, 1938, wells in active production numbered 395. During the first 26 days of February, production in the Wilmington field averaged 99,000 barrels daily compared with a total California output of 739,000 barrels daily, a figure approximately 45,000 barrels in excess of the quota recommended by the United States Bureau of Mines. Demand for petroleum products was well sustained throughout 1937 and refinery operations increased considerably until November. Some reduction was reported in that month but output of refined products has subsequently remained unchanged despite a seasonal reduction in gasoline consumption and a decline in demand for fuel oil for industrial purposes. In January, crude runs to stills were 9 percent larger than in the comparable month last year, although they totaled 6 percent less than the peak for the year reported in October.

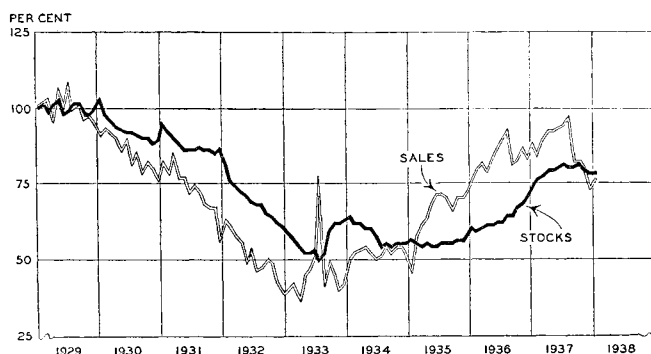
Reflecting a greater than seasonal reduction in employment together with a curtailment in working hours, factory pay rolls declined moderately in January, averaging 6 percent lower than a year ago. Hourly wage rates, however, averaged 12 percent higher than in January 1937. Except in the aircraft, motion picture, and petroleum industries, employment in the larger district industries was also substantially lower than in January 1937, particularly large declines having occurred in the apparel, automobile, clay products, lumber, and metal products industries.

#### **TRADE**

Value of department store sales decreased more than seasonally in January, this bank's adjusted index declining to 93 percent of the 1923-1925 average from 97 percent in December. At that level the index was 5 percent lower than in January last year and lower than in any month since August 1936. This decline in value, after

seasonal adjustment, appears to have been greater than declines in unit volume, since retail price reductions of textile products and other items were especially noticeable during January sales events. The decline from December was fairly general throughout the district, but the reduction from January 1937 was accounted for largely by reductions in sales of reporting firms in California. Reports received from a representative group of department stores indicate a further reduction in sales during February. On a daily-average basis, and after allowance for seasonal influences, the decline from January approximated 5 percent, while the decrease from February 1937 was approximately 10 percent. Value of sales was adversely affected not only by widespread contraction in consumer incomes and by price reductions but also by unusually severe and prolonged storms throughout most of the district during the first half of February. Stocks of goods held by department stores, after adjustment for seasonal influences, declined further in January to a level approximating that of a year earlier.

Sales of furniture stores increased moderately during January, after adjustment for seasonal influences. This upturn interrupted the steady decline in evidence since August 1937 when value of retail furniture sales attained a post-depression peak. In comparison with a year ago, January sales were 14 percent lower. The value of inventories held by retail furniture stores remained near the level of last summer and was about 8 percent higher than a year ago. Probably a considerable part of the year period increase may be attributed to higher prices. On December 15, retail costs of housefurnishing goods in



**RETAIL FURNITURE STORES—Twelfth District**  
Indexes of value of daily average sales and month-end stocks.  
1929 average=100. By months, January 1929 to January 1938.

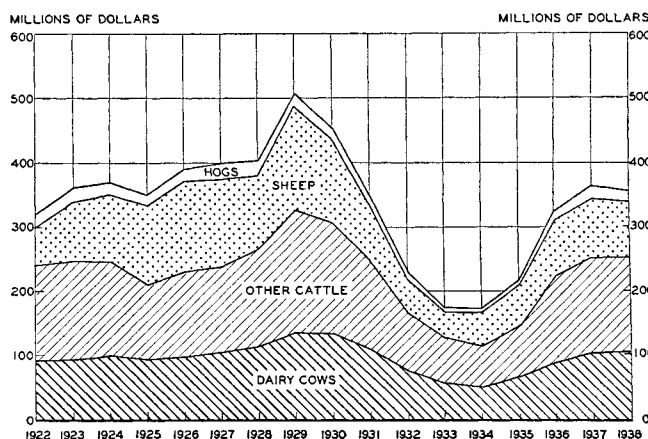
the larger district cities were reported by the United States Bureau of Labor Statistics to average 9 percent higher than on the corresponding date in 1936 and only moderately below 1929 levels.

Wholesale trade in the three Pacific Coast states declined considerably more than in January of most other recent years and was 12 percent lower than in the comparable month last year. While sales decreased in all lines over the year period, particularly large reductions were reported in furniture and housefurnishings, general hardware, dry goods, and shoes and footwear. Inventories of reporting wholesalers increased slightly from December levels and were 12 percent larger in value than in January 1937.

## AGRICULTURE

Storms throughout the district during the first half of February caused damage in some localities, but weather conditions since the first of the year were generally favorable to agriculturists. Widespread rainfall in the lower elevations and heavy snows in the mountains replenished soil moisture and assured adequate supplies of water for irrigation purposes during the coming season.

Prices paid farmers for their crops, after declining severely during the last quarter of 1937, tended to level



**VALUE OF LIVESTOCK ON FARMS AND RANGES**  
Twelfth District

Inventory as of January 1 of each year.

off in January and February at an average approximately 25 percent lower than a year ago. Reflecting this lower level of prices, farm income in January was below that of a year ago for the third successive month.

The annual inventory of the number and value of livestock on farms and ranges, made each year by the United States Department of Agriculture, has recently been released. This inventory indicates that on January 1, 1938 the number of sheep in the Twelfth District was 7 percent smaller than a year ago, while the number of dairy cows and beef cattle remained practically unchanged over the period and the number of hogs declined 6 percent. The number of beef cattle in the district was larger,

## Production and Employment—

Index numbers, 1923-1925  
daily average=100

	With Seasonal Adjustment			Without Seasonal Adjustment		
	1938 Jan.	1937 Dec.	1937 Jan.	1938 Jan.	1937 Dec.	1937 Jan.
<b>Industrial Production</b>						
Manufactures (physical volume)						
Lumber .....	55	55	76	41	44	53
Refined oils .....	—	—	—	168	168	154
Cement .....	80	114	134	56	84	94
Meat .....	116	115	111	—	—	—
Wheat flour .....	109	106	95	109	106	95
Minerals (physical volume)						
Petroleum .....	—	—	—	109	107	88
Lead (U. S.)* .....	..	87	76	..	88	77
Silver (U. S.)* .....	..	..	99	..	..	100
Construction (value)						
Urban residential building permits in 18 cities .....	32	21	41	25	17	32
Public works contracts .....	—	—	—	132	149	107
Miscellaneous						
Electric power production .....	..	206	197	..	195	183

\*Prepared by Board of Governors of the Federal Reserve System.

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

except for last year, than at the beginning of any year since 1924. The number of dairy cows increased steadily for more than a decade to a record level in 1933 and has declined only slightly since that time. The number of hogs, which has moved more or less regularly in four or five year cycles and has been increasing since 1935, was larger on January 1, 1938 than in any year since 1923.

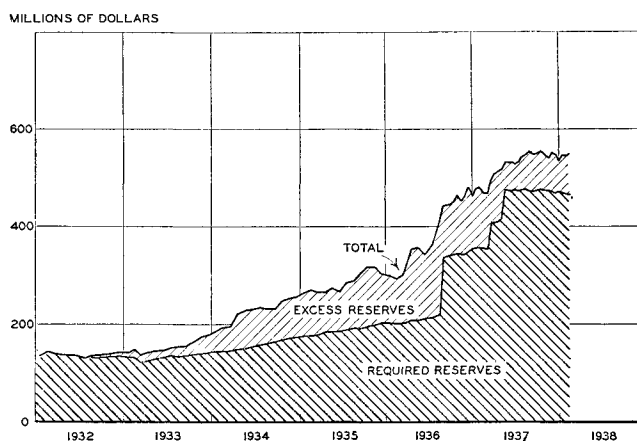
The aggregate value of all Twelfth District meat animals, including dairy cows, was estimated to be \$357,000,000 on January 1, 1938, compared with \$362,000,000 a year earlier. The average value per head of dairy cows, beef cattle, and sheep increased slightly during 1937, but hog values declined about 12 percent. The reduction in aggregate value of livestock from a year ago reflected the decrease in the number of sheep and the decline in the average value of hogs.

### CREDIT

Reserve balances of member banks in this district have not changed much since last July. In the first two weeks of February this year, they averaged \$549,600,000 daily, compared with an average of approximately \$547,000,000 during the last five months of 1937. Total deposits of member banks against which reserves must be maintained have also been relatively stable during recent months. Net demand deposits have declined moderately but this reduction has been offset by an increase in time accounts. Since the percentage of reserves required against net demand deposits is considerably higher than in the case of time accounts, this shift from demand to time accounts has resulted in some reduction in aggregate required reserves. Consequently excess reserves have increased slightly, particularly since the beginning of the year. In the first half of February, daily average excess reserves of all district member banks amounted to \$83,500,000 or 18 percent of requirements, and were approximately \$7,000,000 larger than the average for August 1937.

These excess reserves are relatively widely distributed. In the week ending January 14, 1938, 25 of the 31 banks

in the larger district cities reported average reserves at least 110 percent of average requirements for the period. In addition, most of these banks held balances with correspondents, located principally outside the Twelfth District, amounting to more than 50 percent of their required



MEMBER BANK RESERVES—Twelfth District

reserves. In many cases, these deposits with other domestic banks were larger than necessary for ordinary operations, and to that extent could be regarded as additional reserves by the owner banks.

In the same week, 181 of the 260 member banks in the smaller district cities and towns reported reserves ranging from at least 110 percent to more than 200 percent of requirements and all but 11 of these banks held balances with correspondents amounting to more than 50 percent of their required reserves. Balances held with correspondents by 56 of the remaining 79 member banks in the smaller centers amounted to more than 100 percent of their required reserves.

### DISTRIBUTION OF TWELFTH DISTRICT MEMBER BANKS ACCORDING TO PERCENTAGE OF AVERAGE RESERVES TO AVERAGE REQUIRED RESERVES, WEEK OF JANUARY 14, 1938

(Dollar amounts in thousands)

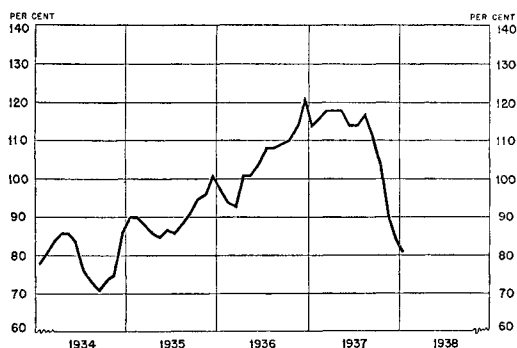
Percent of Average Reserve Balances to Average Required Reserves	Reserve City Banks			Other Banks		
	No. of Banks	Aggre- gate Reserves	Excess Reserves	No. of Banks	Aggre- gate Reserves	Excess Reserves
Less than 110.....	6	184,258	10,184	79	19,231	768
110 or more						
but less than 125..	13	170,356	23,014	94	22,506	3,218
125 or more						
but less than 150..	7	98,710	25,563	47	6,401	1,674
150 or more.....	5	38,233	13,203	40	11,699	5,530
Total .....	31	491,557	71,964	260	59,837	11,190

During the five weeks ending February 23, total earning assets of district city banks declined considerably, reductions taking place both in loans and investments. The decrease in total loans was accounted for largely by a reduction of \$8,000,000 in advances for commercial, industrial, and agricultural purposes. Some reduction in loans of this type customarily takes place at this season of the year. Holdings of open market paper were also reduced. Declines in investments came in holdings of both Government and other securities. Total deposits decreased, reductions being reported in both adjusted demand and time accounts. During recent weeks adjusted demand deposits have averaged lower than at any time since October 1936.

### Distribution and Trade—

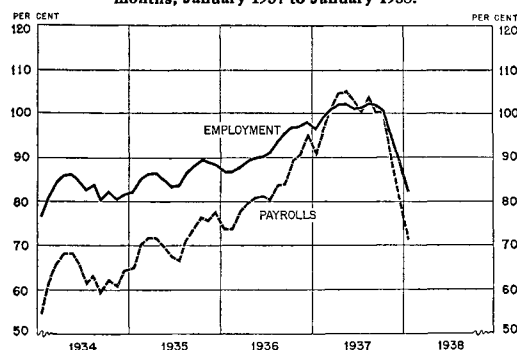
Index numbers, 1923-1925 average=100	With Seasonal Adjustment— 1938—1937			Without Seasonal Adjustment— 1938—1937		
	Jan.	Dec.	Jan.	Jan.	Dec.	Jan.
<b>Retail Trade</b>						
Department store sales (value)*						
Twelfth District .....	93	97	98	77	165	80
California .....	99	103	105	83	175	88
Los Angeles .....	91	93	101	78	154	86
Bay Region .....	107	110	108	88	193	89
San Francisco .....	104	106	105	87	183	88
Oakland .....	114	125	118	89	228	92
Pacific Northwest .....	73	75	73	55	129	54
Seattle .....	80	83	80	61	149	61
Spokane .....	57	57	59	40	95	41
Salt Lake City.....	73	83	69	55	158	52
Department store stocks (value)†	68	69	67	62	64	61
Furniture store sales (value)*‡...	76	73	88	63	105	73
Furniture store stocks (value)††.	78	78	74	74	77	69
Automobile sales (number)*						
Total .....	—	—	—	..	95	112
Passenger .....	—	—	—	..	90	108
Commercial .....	—	—	—	..	146	149
<b>Carloadings (number)*</b>						
Total .....	82	85	94	65	68	74
Merchandise and misc. ....	96	104	106	80	84	88
Other .....	65	60	79	47	48	57
<b>Intercoastal Traffic (volume)</b>						
Total .....	52	52	7	51	50	7
Eastbound .....	43	41	9	45	38	10
Westbound .....	80	92	0	72	87	0

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



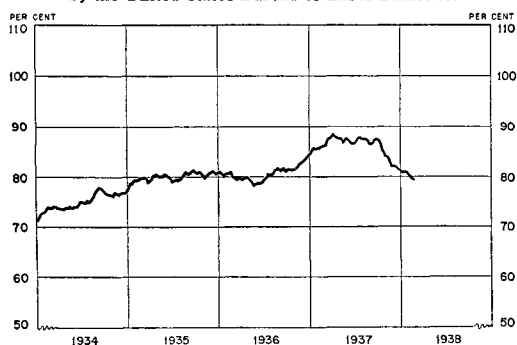
### INDUSTRIAL PRODUCTION

Index of physical volume of production, adjusted for seasonal variation, 1923-1925 average=100. By months, January 1934 to January 1938.



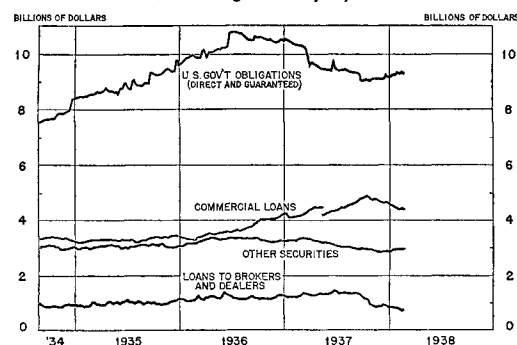
### FACTORY EMPLOYMENT AND PAY ROLLS

Indexes of number employed and pay rolls, without adjustment for seasonal variation, 1923-1925 average=100. By months, January 1934 to January 1938. 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 weeks, 1934 to week ending February 19, 1938.



### MEMBER BANKS IN 101 LEADING CITIES

Wednesday figures for reporting member banks in 101 leading cities, September 5, 1934, to February 16, 1938. Commercial loans, which include industrial and agricultural loans, represent prior to May 19, 1937, so-called "Other loans" as then reported.

## Summary of National Business Conditions

Prepared by the Board of Governors of the Federal Reserve System

**T**HE decline in business activity, which had been rapid during the last quarter of 1937, continued in January but at a slower rate.

### PRODUCTION

Volume of industrial production, as measured by the Board's seasonally adjusted index, was at 81 percent of the 1923-1925 average in January as compared with 84 percent in December. Output of durable goods continued to decline, reflecting chiefly considerable decreases in production of automobiles and plate glass and a further decline in output of lumber. Steel ingot production increased somewhat, the output for January averaging 30 percent of capacity. In the first three weeks of February, activity at steel mills showed little change at about 31 percent of capacity, while production of automobiles was at a lower rate than in January.

In the textile industries, activity at silk and rayon mills in January showed a sharp rise from the low levels reached in December. At cotton mills, however, there was less than the usual seasonal increase and output of woolen products continued in small volume. Shoe production, which also had been at a low rate in December, increased considerably in January, and activity at meat-packing establishments rose somewhat further. Output of tobacco products remained at a high level, while sugar meltings declined. At mines, bituminous coal production was considerably smaller than in December, and there was also a reduction in output of nonferrous metals. Petroleum production continued at the high level of other recent months.

Value of construction contracts awarded in January was smaller than in December and somewhat below the level maintained during the last four months of 1937, according to figures of the F. W. Dodge Corporation. Contracts awarded for public projects increased somewhat further, while awards for private work continued to decline, reflecting a further decrease in residential building and a sharp reduction in awards for factory construction. In the first half of February awards for private projects were at about the same rate as in January, while those for public work showed a sharp decline.

### EMPLOYMENT

Factory employment and pay rolls declined substantially further between the middle of December and the middle of January. In the durable goods industries, decreases in employment were general and were particularly large at factories producing automobiles, steel, and machinery. Employment in nondurable goods industries showed a somewhat smaller decline than in previous months. There was some increase in the number employed at shoe factories and little change in the food industries as a group, but in other nondurable goods industries employment continued to decrease. Employment on the railroads, in mining, and in the construction industry also declined.

### DISTRIBUTION

Department store sales showed a seasonal decrease from December to January, while sales at variety stores and mail order sales declined by more than the usual seasonal amount.

Freight carloadings continued to decline in January, reflecting principally a reduction in shipments of coal.

### COMMODITY PRICES

Prices of steel scrap and nonferrous metals declined from the middle of January to the third week of February, following some advance in December and the early part of January. There were further decreases in some other basic commodities, while prices of cotton and silk advanced. Livestock products continued downward and a number of finished industrial products declined further. Prices of pig iron and most finished steel products have been reaffirmed for second quarter delivery.

### BANK CREDIT

During the first three weeks of February excess reserves of member banks were little changed from the level of \$1,400,000,000 reached at the end of January following the post-holiday return of currency from circulation.

During January there were substantial reductions in commercial loans and brokers' loans and moderate increases in investments at reporting member banks in 101 leading cities. In the first three weeks of February loans and investments of these banks showed little change.

### MONEY RATES

Rates on Treasury bills and yields on Treasury notes and bonds continued in February at the low levels reached in the latter part of January.