

MONTHLY REVIEW

BUSINESS CONDITIONS IN THE TWELFTH FEDERAL RESERVE DISTRICT

Federal Reserve Bank of San Francisco

April 1, 1938

Review of the Month

Value of department store sales in the Twelfth District, which had been well maintained throughout 1937, declined considerably during January, February, and March, after allowance for the usual seasonal changes. This decline indicates that the curtailment in consumer buying which was first evident last fall in decreased sales of automobiles, furniture, household appliances, and other durable goods involving a relatively large unit outlay, has now extended to the miscellaneous goods handled by department stores. Some of the decline in reported figures since January 1 has resulted from price reductions, and at least part of the decrease during March may be attributed to floods and unfavorable weather. The late date of Easter this year may also have affected the index, although an allowance has been made for that influence. Even recognizing these factors, however, it appears that some contraction in consumer buying of miscellaneous nondurable commodities has taken place during the past three months. This would be expected from continuance of the low levels of factory pay rolls, reflecting lower employment and reduced working periods as well as wage reductions, and from recent decreases in farm income owing to lower prices than were received for farm products marketed last summer and spring. This apparent reduction in consumer buying of nondurable goods has become evident, as would be expected, several months after the drastic declines in industrial production and in buying of durable goods which started last summer.

Owing to the abrupt declines in business and prices last autumn, buying by retailers was curtailed much more rapidly than sales. Available data indicate that by the end of February this year retailers' inventories had been reduced substantially from the relatively large volumes that were reached in mid-1937, when considerable further expansion in sales was anticipated. Some additional reduction in stocks was probably necessary at the end of February, and if the recent decline in value of sales points to a substantial curtailment of consumer buying of nondurable goods, still further readjustment in retailers' inventories will be necessary in order to keep stocks in line with current sales.

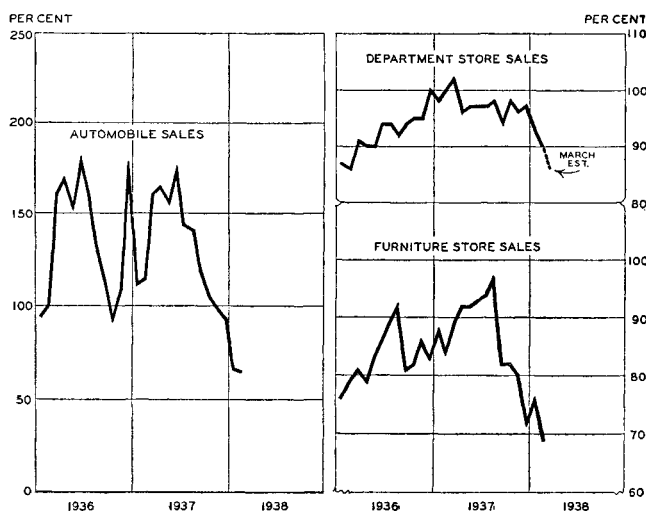
INDUSTRY

Industrial output was practically unchanged in February from the relatively low level of the preceding month. In industries supplying construction materials and other commodities not produced for direct consumption, such as copper, foundry and machine shop products, and machinery, the sharp declines in output originating last summer appear to have been largely checked. Assembly of new automobiles, however, was further curtailed in February, reflecting the low level of district sales of both passenger cars and trucks. Operations in all these industries are currently at rates considerably lower than a year ago.

Output of a number of the less durable goods including food products and refined petroleum has recently been only moderately below 1937 levels. Except in the petroleum industry, it appears that to a considerable extent output has been adjusted to current sales volume and in many lines inventories of finished goods held by producers have been reduced to small proportions. Changes in output in the immediate future will consequently depend to a greater extent than in recent months upon the current movement of goods into consumption.

Production of lumber during February was unchanged from the January and December levels, after allowance for seasonal influences, and this bank's adjusted index remained at 55 percent of the 1923-1925 average. Shipments continued to exceed output, and gross mill stocks declined further from the peak reported on November 30. During the three month period in which stocks were being reduced, unfilled orders held by mills increased from 447,000,000 board feet to about 625,000,000 board feet. Mill prices on several lumber items declined slightly in February, but prices generally were firmer than in January. The upward tendency in sales of lumber during February is reported to have continued in March, and preliminary figures indicate a moderately greater than seasonal expansion in lumber output during that month.

Residential building permits, which expanded sharply in January, did not continue the increase in February.



RETAIL SALES—Twelfth District

Number of new automobiles sold (1923-1925=100) without adjustment for seasonal variation; value of department store sales (1923-1925=100) and value of furniture store sales (1929=100) adjusted for seasonal variation.

Complete figures for March are not yet available, but when reported they are likely to reflect special influences of floods and unfavorable weather, and the record for that month will not necessarily be a test of plans for residential building during the next few months. While significant measures of early developments in residential building may not become apparent for several more months, applications for credit at Twelfth District banks for use in modernizing or repairing properties and for new construction have shown a substantial increase since passage of amendments to the National Housing Act on February 3.

AGRICULTURE

A plentiful supply of irrigation water during the 1938 crop growing season was assured by widespread and almost continuous storms during February and the first three weeks of March. Severe flood and some wind damage was reported in various localities, particularly in central and southern California, but, in contrast with February a year ago, crop damage from frosts was negligible.

Reports from farmers indicate that acreage planted to most of the principal district grain and field crops will not differ greatly this year from last. Some reduction is planned in acreage of crops that are bringing particularly low returns, including beans, potatoes, and rice. The most notable reduction will occur in cotton acreage in Arizona and California which, according to the allotments set under the Agricultural Adjustment Act of 1938, is expected to be around 578,000 acres, compared with 895,000 acres harvested last year, 576,000 acres in 1936, and an annual average of 408,000 acres during the five years 1928-1932.

Income of district orange growers during the first four months of the current marketing year (November through February) was approximately 15 percent smaller than income during the comparable period last year. Shipments for the season through February were 23 percent larger, while prices averaged some 30 percent lower than a year ago. Cash returns to lemon growers have been slightly under those received in the first four months of the 1936-1937 marketing season, reduced shipments having more than offset the influence of higher

prices which have averaged 13 percent above those of a year ago.

Weather conditions have been much more favorable to sheep and wool producers in this district during the past winter than in the winter of 1936-1937, and losses of animals as well as feeding costs have been lower. Prices received for both lambs and wool also have been considerably lower, however, and production costs other than feed have been somewhat higher. Prices now being paid growers for wool are about 40 percent lower than in the comparable period last year and are the lowest since 1933. Lamb prices are down approximately 15 percent from a year ago.

CREDIT

Adjusted demand deposits of district city banks during the four weeks ending March 23 continued the moderate decline in evidence since last summer and averaged approximately 7 percent lower than in the comparable period last year. These deposits fluctuated widely during the four weeks, declining sharply in late February and the first few days of March, and subsequently recovering to a level in mid-March only slightly lower than a month earlier. The sharp but temporary reduction in adjusted demand deposits took place entirely at banks in Los Angeles and San Francisco. It reflected withdrawals from demand deposit accounts prior to the first Monday in March, which is the date for assessment of personal property in California for purposes of local taxation. Each year it is customary for business concerns and individuals to draw down their demand deposit accounts at this period. Funds are transferred temporarily out of the State, invested in tax exempt Government securities maturing within a few weeks, or transferred to time accounts.

Moderate reductions in the volume of demand deposits during recent months have been accompanied by reduced use of this smaller volume of deposits. The lower rate of turnover of deposits corresponds with the reduced level of general business activity, including lower pay rolls,

Production and Employment—

| Industrial Production | Index numbers, 1923-1925 daily average=100 | | | | | |
|---|---|------|------|---|------|------|
| | With Seasonal Adjustment (1938-1937) | | | Without Seasonal Adjustment (1938-1937) | | |
| | Feb. | Jan. | Feb. | Feb. | Jan. | Feb. |
| Manufactures (physical volume) | | | | | | |
| Lumber | 55 | 55 | 75 | 44 | 41 | 59 |
| Refined oils | — | — | — | 157 | 161 | 153 |
| Cement | 73 | 80 | 102 | 65 | 56 | 91 |
| Meat | 115 | 116 | 114 | — | — | — |
| Wheat flour | 118 | 109 | 122 | 118 | 109 | 122 |
| Minerals (physical volume) | | | | | | |
| Petroleum | — | — | — | 111 | 108 | 89 |
| Lead (U. S.)* | 67 | 69 | 70 | 69 | 70 | 72 |
| Silver (U. S.)* | .. | 96 | 94 | .. | 97 | 102 |
| Construction (value) | | | | | | |
| Urban residential building permits in 18 cities | 27 | 32 | 38 | 25 | 25 | 34 |
| Public works contracts | — | — | — | 487 | 132 | 157 |
| Miscellaneous | | | | | | |
| Electric power production | 196 | 196 | 199 | 179 | 181 | 182 |

* 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.

Distribution and Trade—

| Retail Trade | Index numbers, 1923-1925 average=100 | | | | | |
|----------------------------------|---|------|------|---|------|------|
| | With Seasonal Adjustment (1938-1937) | | | Without Seasonal Adjustment (1938-1937) | | |
| | Feb. | Jan. | Feb. | Feb. | Jan. | Feb. |
| Department store sales (value)* | | | | | | |
| Twelfth District | 90 | 93 | 100 | 76 | 77 | 84 |
| California | 96 | 99 | 108 | 81 | 83 | 92 |
| Los Angeles | 88 | 91 | 103 | 78 | 78 | 91 |
| Bay Region | 101 | 107 | 111 | 85 | 88 | 93 |
| San Francisco | 98 | 104 | 108 | 84 | 87 | 93 |
| Oakland | 109 | 114 | 123 | 87 | 89 | 99 |
| Pacific Northwest | 69 | 73 | 74 | 55 | 55 | 59 |
| Seattle | 77 | 80 | 85 | 61 | 61 | 66 |
| Spokane | 56 | 57 | 58 | 45 | 40 | 47 |
| Salt Lake City | 76 | 73 | 81 | 60 | 55 | 64 |
| Department store stocks (value)† | 66 | 68 | 68 | 64 | 62 | 66 |
| Furniture store sales (value)*‡ | 69 | 76 | 84 | 62 | 63 | 75 |
| Furniture store stocks (value)†‡ | 77 | 78 | 76 | 73 | 74 | 72 |
| Automobile sales (number)* | | | | | | |
| Total | — | — | — | 64 | 66 | 115 |
| Passenger | — | — | — | 57 | 60 | 110 |
| Commercial | — | — | — | 137 | 122 | 173 |
| Carloadings (number)* | | | | | | |
| Total | 77 | 82 | 90 | 65 | 65 | 75 |
| Merchandise and misc. | 94 | 95 | 105 | 78 | 79 | 87 |
| Other | 59 | 65 | 70 | 50 | 47 | 59 |
| Intercoastal Traffic (volume) | | | | | | |
| Total | 49 | 52 | 23 | 44 | 51 | 21 |
| Eastbound | 39 | 43 | 9 | 34 | 45 | 8 |
| Westbound | 84 | 80 | 70 | 76 | 72 | 63 |

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

lower payments for raw, semi-manufactured, and finished commodities, lower retail sales value, lower value of securities transactions, and the like. The average rate of turnover of demand deposits in the principal cities of the district during the first 12 weeks of 1938 has been 9 percent lower than in the corresponding period of 1937.

Changes in Twelfth District Banks—1937

The principal structural change in Twelfth District banking during 1937 was the further reduction in number of banks, accompanied by growth in the number of banking offices because of extension of branch banking. Growth in number of branches reflected both consolidations of banks and opening of new offices.

The number of banks in operation declined from 652 at the beginning of the year to 601 on December 31, 1937, but the total number of banking offices increased from 1657 to 1666. Of these, 291 banks having 1303 offices were members of the Federal Reserve System. These member banks held 87.6 percent of district banking assets at the end of 1937, compared with 86.8 percent a year earlier.

Consolidations of banks explain almost entirely the net decrease of 51 in number of banks during the year. No suspensions occurred in 1937, but one licensed bank went into voluntary liquidation. (One bank which was

The number of branches operated by Twelfth District banks increased from 1005 to 1065 during 1937, a net growth of 60. Practically all of this expansion took place in banks which were operating branches at the beginning of the year, although one former unit bank also acquired a branch office during 1937. Most of the 56 banks consolidated or absorbed during 1937 were located outside of reserve cities, the majority being taken over and converted into branches by large banks having their head offices in reserve cities. In addition to the acquisition of offices through absorption of existing banks, 21 new branches were established. Seven branch offices were discontinued during 1937. Two of these resulted from an exchange of branches for the purpose of eliminating duplicate facilities. That is, two branch bank systems in Idaho had each been operating offices in two towns. Since one banking office was considered adequate in each town, the competing offices were merged leaving one branch serving each community.

The number of branches increased during 1937 in all states of the district except Idaho, the largest proportionate increases occurring in Washington and Oregon. The increase in total number of branch offices in the Twelfth District took place entirely at national banks, the number operated by both state member banks and nonmember banks showing a decline. The decrease in branches of state banks resulted partly from the acquisition by a national bank in California of branches previously operated by an affiliated state bank and partly from conversion of a branch operating state member bank in Washington into a national institution.

BRANCH BANKS IN OPERATION—TWELFTH DISTRICT

| | Banks Operating Branches | | | | Banks Operated by | | | | Banks Located | |
|-------------------|--------------------------|------|------|------|-------------------|------|------|------|---------------|-------------------|
| | State | | Non- | | State | | Non- | | In Home City | Outside Home City |
| | Nat. | Mem. | Mem. | Nat. | Mem. | Mem. | Nat. | | | |
| December 31, 1936 | Total | Bks. | Bks. | Bks. | Total | Bks. | Bks. | Bks. | | |
| Arizona | 3 | 2 | 0 | 1 | 22 | 18 | 0 | 4 | 0 | 22 |
| California | 37 | 10 | 8 | 19 | 839 | 657 | 137 | 45 | 241 | 598 |
| Idaho | 6 | 4 | 1 | 1 | 32 | 16 | 14 | 2 | 0 | 32 |
| Nevada | 2 | 2 | 0 | 0 | 8 | 8 | 0 | 0 | 1 | 7 |
| Oregon | 4 | 2 | 0 | 2 | 49 | 47 | 0 | 2 | 11 | 38 |
| Utah | 4 | 3 | 0 | 1 | 10 | 9 | 0 | 1 | 1 | 9 |
| Washington | 8 | 5 | 1 | 2 | 45 | 38 | 5 | 2 | 14 | 31 |
| Totals | 64 | 28 | 10 | 26 | 1,005 | 793 | 156 | 56 | 268 | 737 |
| December 31, 1937 | | | | | | | | | | |
| Arizona | 3 | 2 | 0 | 1 | 24 | 20 | 0 | 4 | 1 | 23 |
| California | 36 | 10 | 7 | 19 | 858 | 684 | 134 | 40 | 242 | 616 |
| Idaho | 6 | 4 | 1 | 1 | 31 | 16 | 13 | 2 | 0 | 31 |
| Nevada | 2 | 2 | 0 | 0 | 10 | 10 | 0 | 0 | 1 | 9 |
| Oregon | 4 | 2 | 0 | 2 | 65 | 63 | 0 | 2 | 11 | 54 |
| Utah | 5 | 3 | 0 | 2 | 12 | 9 | 0 | 3 | 1 | 11 |
| Washington | 9 | 6 | 1 | 2 | 65 | 62 | 1 | 2 | 15 | 50 |
| Totals | 65 | 29 | 9 | 27 | 1,065 | 864 | 148 | 53 | 271 | 794 |

not licensed on December 31, 1936 and therefore not counted in the number of operating banks on that date was also placed in liquidation in 1937.) The organization of two new banks in California and the licensing of four banks in the State of Nevada partly offset these decreases. Granting of licenses to the four banks in Nevada disposed of all remaining Twelfth District banks that did not receive licenses following the banking holiday in 1933.

BRANCH BANK ASSETS—TWELFTH DISTRICT

(Figures as of December 31. Assets in thousands of dollars)

| State | Member Branch Banks | | Nonmember Branch Banks | | Ratio Branch Bank Assets to All Bank Assets | |
|------------------|---------------------|-----------|------------------------|---------|---|------|
| | 1936 | 1937 | 1936 | 1937 | 1936 | 1937 |
| Arizona | 44,608 | 57,795 | 3,887 | 4,416 | 77.7 | 88.7 |
| California | 3,356,598 | 3,321,123 | 366,157 | 385,146 | 84.0 | 85.3 |
| Idaho | 64,080 | 66,155 | 3,467 | 3,452 | 63.2 | 65.9 |
| Nevada | 26,034 | 31,654 | 0 | 0 | 75.4 | 85.0 |
| Oregon | 217,928 | 235,126 | 2,547 | 2,696 | 70.5 | 75.9 |
| Utah | 52,608 | 56,237 | 1,519 | 2,065 | 33.1 | 34.8 |
| Washington | 296,121 | 315,098 | 3,912 | 4,337 | 52.9 | 56.9 |
| Twelfth District | 4,057,977 | 4,083,188 | 381,489 | 402,112 | 78.1 | 80.1 |

The proportion of total district bank assets held by branch banking institutions continued to grow during 1937, and at the year-end branch operating banks reported 80 percent of district bank assets, compared with 78 percent a year earlier. The ratio of branch bank assets to total bank assets increased in all states of the Twelfth District and at the close of 1937 the proportions ranged from 35 percent in Utah to 89 percent in that part of Arizona located in the Twelfth District. Branch operating member banks held 91 percent of all branch bank assets on December 31, 1937.

BANKS IN OPERATION—TWELFTH DISTRICT

(Figures as of December 31. Assets in thousands of dollars)

| State | Member Banks | | Assets | | Nonmember Banks | | Assets | | All Banks | | Assets | |
|------------------|--------------|------|-----------|-----------|-----------------|--------|---------|---------|-----------|------|-----------|-----------|
| | Number | 1936 | 1937 | 1936 | 1937 | Number | 1936 | 1937 | Number | 1936 | 1937 | |
| Arizona | 6 | 5 | 53,158 | 60,100 | 3 | 3 | 9,242 | 10,007 | 9 | 8 | 62,400 | 70,107 |
| California | 123 | 117 | 3,911,014 | 3,866,437 | 121 | 117 | 522,564 | 478,100 | 244 | 234 | 4,433,578 | 4,344,537 |
| Idaho | 30 | 30 | 86,403 | 89,412 | 23 | 22 | 20,517 | 16,175 | 53 | 52 | 106,920 | 105,587 |
| Nevada | 5 | 5 | 28,936 | 34,610 | 3 | 4 | 5,586 | 2,635 | 8 | 9 | 34,522 | 37,245 |
| Oregon | 43 | 33 | 270,455 | 272,775 | 50 | 44 | 42,343 | 40,469 | 93 | 77 | 312,798 | 313,244 |
| Utah | 32 | 32 | 133,212 | 136,158 | 27 | 27 | 30,380 | 31,579 | 59 | 59 | 163,592 | 167,737 |
| Washington | 83 | 69 | 449,705 | 448,001 | 103 | 93 | 117,079 | 112,937 | 186 | 162 | 566,784 | 560,938 |
| Twelfth District | 322 | 291 | 4,932,883 | 4,907,493 | 330 | 310 | 747,711 | 691,902 | 652 | 601 | 5,680,594 | 5,599,395 |

Summary of National Business Conditions

Prepared by the Board of Governors of the Federal Reserve System

VOLUME of manufacturing production showed little change from January to February, while output of minerals declined further. Awards for residential building increased somewhat in February and rose considerably in the first half of March.

PRODUCTION

The Board's seasonally adjusted index of industrial production, which includes both manufacturing and mining, was 79 percent of the 1923-1925 average in February as compared with 80 percent in January. The decline in the total index was accounted for chiefly by a reduction in output of minerals, particularly of crude petroleum. Steel ingot production showed about the usual seasonal increase and averaged 32 percent of capacity in February. Automobile production decreased slightly further, and output of plate glass continued to decline. Lumber production rose seasonally. In the first three weeks of March activity at steel mills and automobile factories was at about the same average rate as in February. In the nondurable goods industries there were moderate increases in output in February at textile mills and shoe factories, where production has recently been at low levels, while at meat-packing establishments activity declined.

Value of construction contracts awarded, as reported by the F. W. Dodge Corporation, showed a sharp decline from January to February, reflecting chiefly a marked reduction in awards for publicly-financed projects. Contracts for residential building increased moderately. In the first half of March there was a considerable further increase reported for residential building and awards for other construction also increased.

EMPLOYMENT

Factory employment and pay rolls increased by somewhat less than the usual seasonal amount between the middle of January and the middle of February. The Board's seasonally adjusted index of factory employment was at 83 percent of the 1923-1925 average in February as compared with 84 in January. In the durable goods industries decreases were general in February, though not so large as in preceding months. Employment in nondurable goods industries increased somewhat following a period of rapid decline. Employment in trade, at mines, on the railroads, and in the construction and public utility industries decreased somewhat from the January level.

DISTRIBUTION

Value of department store sales, as measured by the Board's seasonally adjusted index, declined from 90 percent of the 1923-1925 average in January to 88 percent in February, and in the first three weeks of March there was a further decrease. Sales at variety stores and mail order houses in February showed somewhat less than the usual seasonal increase.

Freight-car loadings decreased further in February, reflecting chiefly reduced shipments of coal and grain, and showed a seasonal increase in the first two weeks of March. The current level of car loadings is about 25 percent less than a year ago.

COMMODITY PRICES

The general level of wholesale commodity prices, as measured by the Bureau of Labor Statistics' index, showed little change from the middle of February to the third week of March. There were seasonal increases in prices of livestock and meats, while prices of such basic commodities as wheat, cotton, rubber, zinc, and bituminous coal declined.

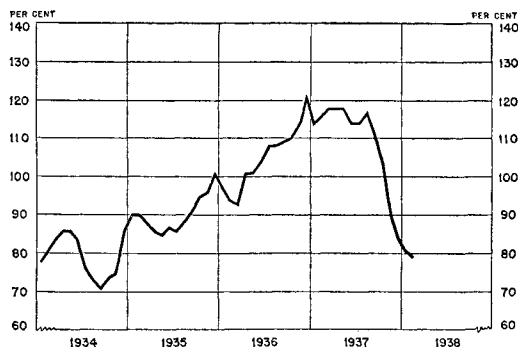
BANK CREDIT

Excess reserves of member banks increased during the first three weeks of March to over \$1,500,000,000, the highest level since last April. The bulk of the increase occurred at New York City banks, which in the third week of the month held over \$700,000,000 of excess reserves.

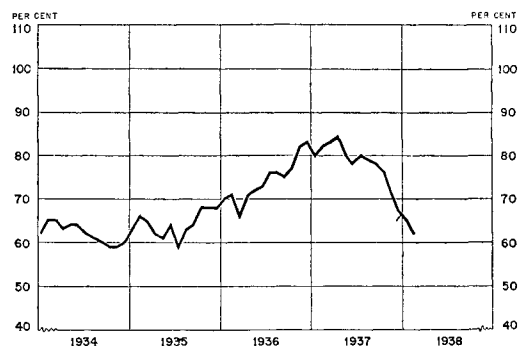
During February and the first half of March, there was little net change in deposits and in total loans and investments at reporting member banks in 101 leading cities. Holdings of United States Government obligations declined at banks in New York but increased in Chicago. Commercial loans, which had decreased sharply in the four preceding months, showed a further moderate decline.

MONEY RATES AND BOND YIELDS

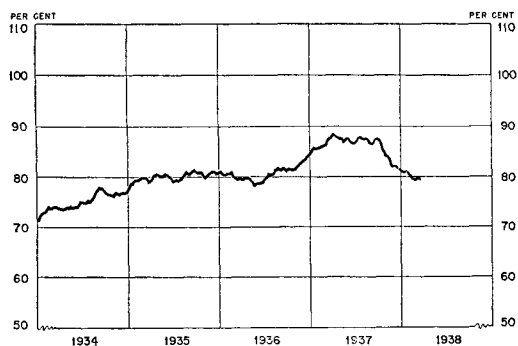
Conditions in the short term money market continued easy in March. Rates on Treasury bills were slightly lower and prime commercial paper was quoted at a range of from $\frac{3}{4}$ to 1 percent as against the flat 1 percent rate which had prevailed since a year ago. Yields on Treasury bonds and notes, after declining for the past six months, advanced slightly around the middle of March. Yields on corporate bonds also advanced in March, reflecting principally declines in prices of railroad bonds.



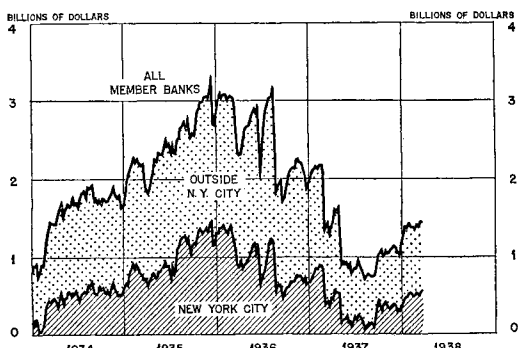
INDUSTRIAL PRODUCTION
Index of physical volume of production, adjusted for seasonal variation, 1923-1925 average=100. By months, January 1934 to February 1938.



FREIGHT-CAR LOADINGS
Index of total loadings of revenue freight, adjusted for seasonal variation, 1923-1925 average=100. By months, January 1934 to February 1938.



WHOLESALE PRICES
Index compiled by the United States Bureau of Labor Statistics, 1926=100. By weeks, 1934 to week ending March 19, 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 March 16, 1938.