

MONTHLY REVIEW

BUSINESS CONDITIONS IN THE TWELFTH FEDERAL RESERVE DISTRICT

Federal Reserve Bank of San Francisco

June 1, 1938

Review of the Month

Not much change was evident in the volume of industrial production or in trade activity of the Twelfth District during April. After allowance for seasonal changes, there have been small declines in output and trade during the past several months and activity as indicated by seasonally adjusted data is slightly lower than it was at the beginning of the year. Residential building expanded further during April, although no change is customary from March, and preliminary data for May point to substantial additional increases in home building during that month. Department store sales were larger in value in April than in March, owing mainly if not entirely to Easter buying. Sales during March and April combined, however, were somewhat lower than in January and February, after allowance for seasonal factors, and were 8 percent lower than in March and April, 1937. Preliminary data for May indicate a decrease in the seasonally adjusted index of department store sales for that month. The customary spring expansion in sales of new automobiles has not taken place this year, and barely half as many new cars were sold in the first four months of 1938 as in the corresponding 1937 period. Factory employment and pay rolls decreased during April, continuing the steady recession that started last August. Cash income received by farmers has been substantially lower in each of the first four months of this year than last, with April showing a larger percentage decline than any of the earlier months. Demand for commercial and industrial credit at banks in leading cities has tended downward since January, and on May 18 loans for such purposes were 5 percent smaller than a year earlier.

INDUSTRY

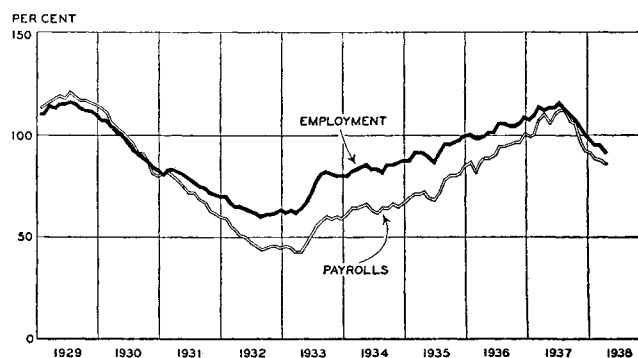
Output of lumber declined in April by approximately the amount that it had increased in March. New orders have tended downward since January, and with the volume of unfilled orders at district mills totalling little more than 500,000,000 board feet on May 1 (less than 3 weeks' production at the March and April rates) there is little incentive to expand operations. Crude petroleum production receded slightly during April, but remained substantially in excess of demand. Activity at district automobile assembling plants advanced moderately but, after allowance for seasonal influences, remained at lower levels than earlier in the year. Output of food products declined in April, chiefly reflecting reduced activity at meat packing plants and in the canning industry. The spring spinach pack, completed early in May, is estimated by trade sources to aggregate less than 900,000 cases, compared with an annual average during the past 5 years of about 2,000,000 cases. Available data indicate

little or no change in volume of steel, furniture, aircraft, copper, wheat flour, and tire production in April.

Residential building activity increased substantially in April, although no change is customary, and this bank's seasonally adjusted index advanced from 31 to 36 percent of the 1923-1925 average. At that level the index was about 20 percent lower than in April 1937, when value of residential building permits attained a post-depression peak. Preliminary data covering the first 3 weeks of May indicate a further advance of considerably more than the usual seasonal amount.

FACTORY EMPLOYMENT AND PAY ROLLS

Revision of this bank's indexes of factory employment and pay rolls in Pacific Coast states has recently been completed. The revised indexes for each of the three states and for the three combined are shown in the accompanying charts. Similar series for other states in the



FACTORY EMPLOYMENT AND PAY ROLLS
Pacific Coast States

Indexes of number employed and pay rolls, adjusted for seasonal variation, 1923-1925 average=100. By months, January 1929 to April 1938. (Fruit and vegetable canning industry excluded)

Twelfth Federal Reserve District have not been computed because of inadequate data for some of the earlier years. Since more than 90 percent of district wage-earners engaged in manufacturing are employed in California, Oregon, and Washington, however, indexes for those three states combined may be taken as satisfactory indicators of changes in factory employment in the district as a whole. Figures for the fruit and vegetable canning industry, which are subject to sharp and somewhat erratic seasonal movements, have been excluded from the indexes.

Of the total number of persons employed in the Twelfth District by private business, excluding farming, somewhat less than one-third are wage earners in mills and factories, according to census data. Although wage earners employed in manufacturing industries make up

a substantial portion of the total number of privately employed workers in the district, fluctuations in their employment or pay rolls cannot be taken as measures of changes in the total number of workers or in the total pay rolls of all lines of business. For example, on the basis of such information as is available, it appears that factory employment fluctuates considerably more widely than employment in retail, wholesale, public utility, or financial institutions, which employ most of the other workers in private business.

As shown by the chart on the preceding page, the seasonally adjusted index of employment in the Pacific Coast states attained a peak of 115 percent of the 1923-1925 average in July 1937, approximately equal to the record high in July 1929, and 92 percent higher than the depression low in 1932. Although average hourly earnings per worker were higher in 1937 than in 1929, working hours were shorter. Thus, aggregate wages paid to all workers, which had declined more precipitously than employment from 1929 to 1932, failed to regain the 1929 totals, and the highest figure reached in 1937 by the adjusted index of pay rolls was 112, for July, which compared with the July 1929 high at 121.

Since the summer of 1937, the number of workers employed at district mills and factories has dropped sharply and almost continuously. Total wages have declined somewhat more rapidly than the number of employees. Average weekly earnings of those remaining on factory pay rolls have been curtailed to some extent, largely through shorter working periods, although some reductions in wage rates also have been reported. By mid-April, employment at district factories had receded to the April 1935 level, and total factory pay rolls were about the same as in the spring of 1936.

The charts on this page show that changes in factory employment in California have differed considerably from those in the Pacific Northwest during recent years. In Oregon and Washington, approximately 50 percent of factory wage-earners are employed in the lumber industry, and major changes in output of lumber and related products have a pronounced influence upon figures of employment, working hours, and total income of all factory workers in those states. Demand for lumber, which comes largely from the domestic building industry, has expanded less rapidly in recent years than has demand for many other industrial products, and as a result the number of loggers and mill workers employed has

not increased as rapidly as employment in other lines. This condition has been reflected in a more modest expansion since 1932 in the number of factory and mill workers in Oregon and Washington than in California, where industrial activity is much more widely diversified.

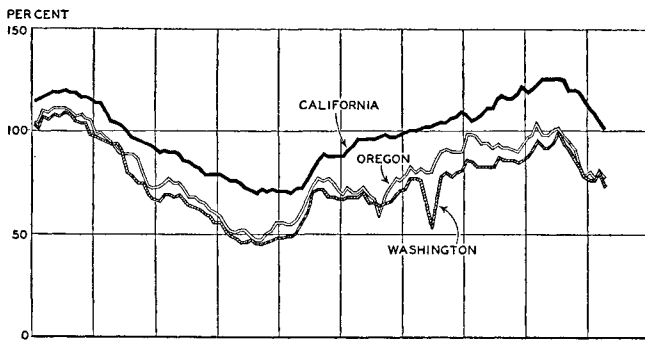
AGRICULTURE

Precipitation was above normal throughout most of the district during April, and warm, dry weather in May was beneficial to all growing crops, feed on livestock ranges, and general farming activities. Near-record snow packs in the higher mountains indicate adequate water for irrigation during the growing season this year.

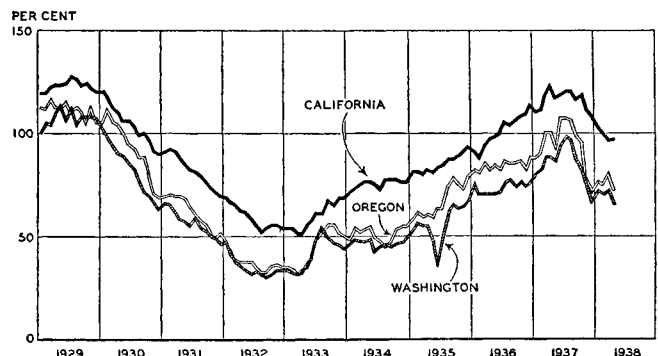
For the sixth consecutive month since last October district farmers received less cash income for their products marketed than in the same month in the previous year. Cash income is estimated to have been more than 20 percent smaller in April 1938 than in April 1937, and total income received during the first four months of the year was 18 percent smaller this year than last. The reduction of income during the first 4 months of this year as compared with the first 4 months of last year reflects a decline of over 35 percent in cash receipts from crop marketings. This decline more than offset an increase of 3 percent in the income of livestock growers. The volume of crop marketings was well maintained but prices declined abruptly over the year-period.

Notwithstanding some delay in cultivation and spraying because of wet weather during the spring, most deciduous fruit orchards and vineyards were in good condition on May 1. Definite production forecasts for these crops are not yet available, but the present set of fruits indicates an average volume of output for the district as a whole this year.

District livestock ranges were improved by rains during April and warm weather in the first half of May. On May 1, spring and summer range feed prospects were excellent, except in Arizona, and stock water supplies generally were abundant. Early lambs have developed well throughout most of the district. The total movement of early lambs from California to eastern and midwestern consuming markets through May 21 approximated 334,000 head, compared with about 295,000 head shipped last year through May 22. Shearing became general late in May. Growers report a considerable volume of sales of 1938 clip wool at prices about 40 percent below those received last spring.



FACTORY EMPLOYMENT (number)



FACTORY PAY ROLLS

Indexes adjusted for seasonal variation, 1923-1925 average=100. By months, January 1929 to April 1938. (Fruit and vegetable canning industry excluded)

The value of farm real estate in the Twelfth District, as estimated by the United States Department of Agriculture, declined from 104 percent of the pre-war base on March 1, 1937 to 103 percent on March 1, 1938. The index on the later date was 12 percent higher than the low point reached in 1933, but was 24 percent below the 1929 index of 135.

CREDIT

Total loans of district city banks were reduced slightly further in the four weeks ending May 18. Loans of these banks, which account for approximately 55 percent of the total for all district member banks, have declined about 6 percent since the first of the year. The decline took place almost entirely in advances for commercial and industrial purposes and in holdings of open market paper. Seasonal influences explain some of the recent decline, but the curtailment in demand for credit resulting from the recession in general business activity has been of greater significance.

Loans to brokers and dealers in securities have also declined since the first of the year and on May 18 were less than half the total outstanding on the comparable date in 1937. Other loans for purchasing or carrying securities have shown little change in recent weeks but are slightly lower than a year ago. Despite active extension of credit by most district banks to finance the purchase of real estate, particularly in the form of loans on residential properties insured by the Federal Housing Administration, real estate loans in late May were practically unchanged from a year earlier. This lack of change in total real estate loans, despite a large volume of new advances during the past year, reflects the continual amortization of loans that were outstanding a year ago.

Substantial purchases of Government securities were made in the open market by district city banks during the ten days immediately following the increase in re-

serve requirements, effective April 16, and small further acquisitions were reported during May. Principally reflecting these purchases, investments in Government obligations on May 18 were larger than at any time since early in March last year. Investments in other securities have fluctuated with little net change in recent weeks at a level moderately lower than a year ago.

Adjusted demand deposits, which constitute the principal purchasing medium of the community, tended slightly lower in the four weeks ending May 18, continuing the slow decline in evidence since February 1937. Not only

CONDITION OF REPORTING MEMBER BANKS
TWELFTH DISTRICT

(amounts in millions of dollars)

	May 18 1938	Apr. 20 1938	Dec. 29 1937	May 19 1937
Total loans	988	992	1,049	1,023
Commercial, industrial and agricultural loans	339	341	377	356
Open market paper	30	33	37	43
Loans to brokers and dealers in securities	11	10	16	23
Other loans for purchasing or carrying securities	55	56	60	60
Real estate loans	374	373	373	372
Loans to banks	2	2	3	5
Other loans	177	177	183	164
U. S. Government direct obligations	712	687	676	690
Obligations fully guaranteed by U. S. Government	141	131	125	134
Other securities	290	285	291	307
Demand deposits—adjusted	862	863	881	928
Time deposits	1,059	1,039	1,038	1,016
U. S. Government deposits	91	91	62	15
Interbank deposits	261	262	253	278

are these deposits below the levels of a year ago but their use in making payments has also declined somewhat. Time deposits, which may be readily converted into cash or other means of payment, increased considerably in late April and in May, and are somewhat larger than a year ago. In the aggregate, adjusted demand and time deposits on May 18 were only one percent lower than on the comparable date in 1937.

Production and Employment—

Index numbers, 1923-1925
average=100

	With Seasonal Adjustment			Without Seasonal Adjustment		
	1938	1937	1937	1938	1937	1937
	Apr.	Mar.	Apr.	Apr.	Mar.	Apr.
Industrial Production						
Manufactures (physical volume)						
Lumber	57	63	86	61	58	93
Refined oils	—	—	—	158	156	157
Cement	—	55	116	—	56	122
Meat	109	119	115	—	—	—
Wheat flour	116	116	135	102	114	119
Minerals (physical volume)						
Petroleum	—	—	—	109	110	95
Lead (U. S.)* .....	..	64	85	..	65	84
Silver (U. S.)* .....	..	..	103	..	..	104
Construction (value)						
Urban residential building permits in 18 cities	36	31	45	39	34	49
Public works contracts	—	—	—	106	156	101
Miscellaneous						
Electric power production	189	190	192	186	177	189
Factory Employment and Pay Rolls†						
Employment						
Pacific Coast	91	95	112	91	93	113
California	101	105	126	102	103	124
Oregon	76	81	98	77	77	99
Washington	74	81	92	76	79	94
Pay rolls						
Pacific Coast	85	87	110	86	87	111
California	97	96	122	97	96	122
Oregon	72	80	100	73	76	102
Washington	65	72	88	69	72	93

*Prepared by Board of Governors of the Federal Reserve System.
†Excluding fruit and vegetable canning.

Distribution and Trade—

Index numbers, 1923-1925
average=100

	With Seasonal Adjustment			Without Seasonal Adjustment		
	1938	1937	1937	1938	1937	1937
	Apr.	Mar.	Apr.	Apr.	Mar.	Apr.
Retail Trade						
Department store sales (value)*						
Twelfth District	91	89	96	90	81	90
California	96	94	102	94	86	95
Los Angeles	91	88	100	87	82	92
Bay Region	100	99	105	99	88	97
San Francisco	97	99	102	96	87	95
Oakland	114	107	118	110	94	106
Pacific Northwest	72	72	75	72	64	71
Seattle	79	80	83	79	69	80
Spokane	56	58	56	56	48	54
Salt Lake City	77	74	71	75	63	65
Department store stocks (value)†	65	66	70	68	68	73
Furniture store sales (value)*‡	70	68	92	65	61	84
Furniture store stocks (value)†‡	71	74	79	74	74	81
Automobile sales (number)*						
Total	—	—	—	78	72	165
Passenger	—	—	—	71	64	155
Commercial	—	—	—	154	150	268
Carloadings (number)*						
Total	75	75	91	73	71	90
Merchandise and misc.	88	87	107	81	80	98
Other	58	60	73	63	59	79
Intercoastal Traffic (volume)						
Total	48	53	79	47	53	76
Eastbound	40	45	57	37	42	54
Westbound	73	86	144	78	91	153

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

Summary of National Business Conditions

Prepared by the Board of Governors of the Federal Reserve System

INDUSTRIAL production declined in April, reflecting chiefly reduced activity in the cotton textile and lumber industries. Distribution of commodities increased less than seasonally but continued to be somewhat in excess of production. Commodity prices showed a further decrease.

PRODUCTION

In April, volume of industrial production, as measured by the Board's seasonally adjusted index, was at 77 percent of the 1923-1925 average as compared with the level of about 79 percent maintained during the first quarter of the year. The decline reflected, chiefly, considerable reductions in output at cotton textile mills and lumber mills, where there had been moderate increases in production in March. In most other manufacturing industries changes in activity were largely seasonal in character. Output continued at around 33 percent of capacity at steel mills, and in the automobile industry showed little change, amounting in April to about 40 percent of the volume of a year ago. In the first three weeks of May production of steel and automobiles was at a lower rate than in April. At mines, there was a considerable decline in output of anthracite in April, while bituminous coal production showed somewhat less than the usual seasonal decrease. Crude petroleum production continued in large volume.

Value of construction contracts awarded, which had increased considerably in March, showed little change in April, according to figures of the F. W. Dodge Corporation. Awards usually increase somewhat further in April. In the first four months of this year private residential building was about one fourth less than in the corresponding period last year, while other private work, particularly industrial and utility construction, was only about one half as large as a year ago. Awards for public projects were somewhat larger than last year.

EMPLOYMENT

Factory employment and pay rolls declined from the middle of March to the middle of April, and the Board's seasonally adjusted index of employment was at 79 percent of the 1923-1925 average as compared with 82 in March and 84 at the beginning of the year. The number employed at automobile factories declined sharply and there were further substantial decreases in the steel and machinery industries and at railroad repair shops. Smaller declines were reported in most other manufacturing industries. Employment at mines and on the railroads also decreased, while in trade there was some increase in the number employed, reflecting partly increased business at the Easter season.

DISTRIBUTION

Distribution of commodities to consumers showed less than the usual seasonal rise in April. The Board's adjusted index of department store sales was 83 in April, compared with 86 in March and 90 at the beginning of the year, and figures for the first half of May indicate a further decrease.

Freight-car loadings also declined from March to April, reflecting largely reduced shipments of miscellaneous freight, and were about 30 percent less than in April 1937.

COMMODITY PRICES

Wholesale prices of industrial commodities continued to decline from the middle of April to the third week of May and prices of agricultural products also decreased somewhat further. Steel scrap, copper, and rayon showed considerable declines and there were reductions in prices of some finished industrial products. It was announced that prices of most finished steel products would be unchanged for third quarter delivery.

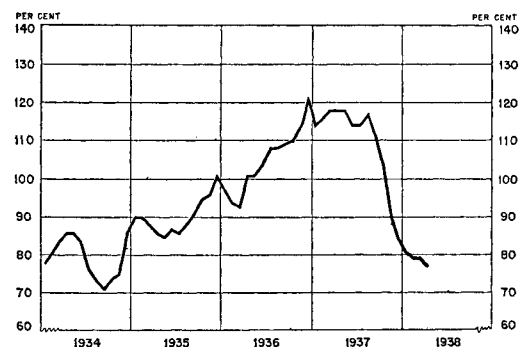
BANK CREDIT

Total loans and investments of reporting member banks in 101 leading cities showed little change during April and the first half of May. Holdings of United States Government obligations increased somewhat, while holdings of other securities and loans declined. Adjusted demand deposits in leading cities increased during the period as a result of expenditures by the Treasury from its balances with the Reserve banks. Interbank deposits also increased substantially.

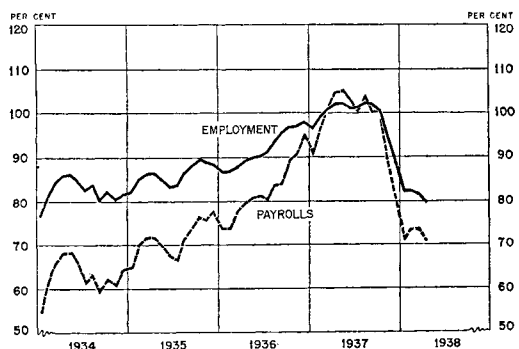
Member bank reserves increased further, reflecting principally Treasury disbursements from its deposits at the Reserve banks, including retirement of \$50,000,000 of Treasury bills each week.

MONEY RATES AND BOND YIELDS

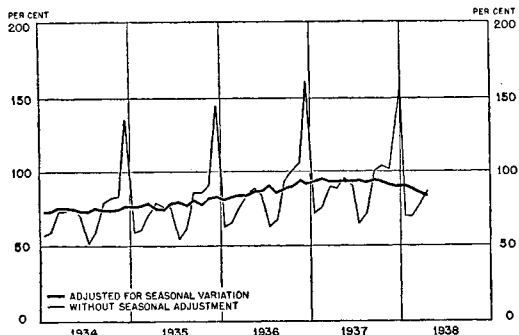
Yields on Government securities declined slightly further in the four weeks ending May 21 to an average for longer-term Treasury bonds of 2.28 percent. The average yield on 3- to 5-year Treasury notes declined to a new low of 0.73 percent. The rate on three-month Treasury bills continued at record low levels, and other open-market money rates remained unchanged.



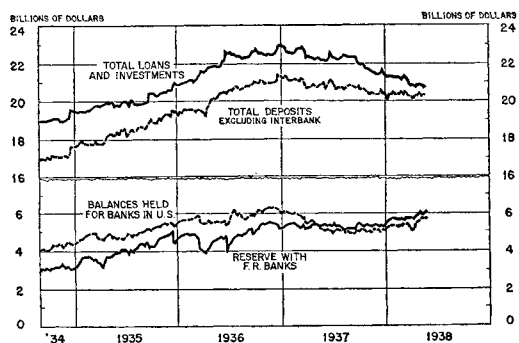
INDUSTRIAL PRODUCTION
Index of physical volume of production, adjusted for seasonal variation, 1923-1925 average=100. By months, January 1934 to April 1938.



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 April 1938. Indexes compiled by the United States Bureau of Labor Statistics.



DEPARTMENT STORE SALES
Indexes of value of sales, 1923-1925 average=100. By months, January 1934 to April 1938.



MEMBER BANKS IN 101 LEADING CITIES
Wednesday figures for reporting member banks in 101 leading cities, September 5, 1934, to May 18, 1938. Total deposits, excluding interbank, are adjusted to exclude "float".