Review of the Month

Some further slight decline in Twelfth District industrial production took place in May, but factory employment and pay rolls and trade activity were practically unchanged from April levels. Residential building operations increased considerably more than seasonally again in May and preliminary data indicate an additional expansion in June. District farm cash income was about the same as in April and approximately 23 percent lower than in May 1937. After having declined during the first four months of the year, loans for commercial, industrial, and agricultural purposes were unchanged from mid-May to mid-June.

Industry and Trade

Reflecting continued efforts to adjust production to the volume of sales, output of lumber in the district declined slightly in May. Except in March, when a greater than seasonal advance occurred, output has varied only slightly from the customary seasonal pattern during the past six months. This bank's adjusted index, which was 55 percent of the 1923-1925 average in December, January, and February, increased to 63 in March, then declined to 58 in April and 57 in May. Data for the first half of June indicate that the index in that month will be close to 60.

Activity in other durable goods industries for which data are available changed little in May. Available information indicates that output of steel, automobiles, and foundry and machine shop products was about the same as in April, and only moderately lower than earlier in the year. Activity at aircraft, cement, and furniture plants and at motion picture studios advanced moderately.

During May and June district canneries were operating at a lower level than a year ago. The California asparagus pack, which was largely completed by the end of June, was limited by the Asparagus Control Board to 1,800,000 cases. This represents a decline of 13 percent from last season's output and the smallest pack since 1932. The California canned tuna pack is also running considerably less than a year ago. After allowance for seasonal influences, flour output was unchanged from the April level, while meat packing advanced moderately.

Factory employment in the three Pacific Coast states declined slightly from mid-April to mid-May but pay rolls were unchanged. The number of wage-earners in California plants advanced moderately, owing mainly to larger than seasonal gains in the motion picture and food industries (other than canning). Employment in Oregon also increased, although by somewhat less than in customary in May. In Washington, however, a sharp contra-seasonal decline took place. As a result the adjusted index of employment in the three Pacific Coast states combined declined slightly. A contra-seasonal decrease in aggregate wages paid Washington workers was offset by increases in the other two states, and the combined index of factory pay rolls remained unchanged on a seasonally adjusted basis.

Residential building activity, which expanded sharply in April, continued to increase in May. This bank's seasonally adjusted index of the value of permits issued in the 18 larger district cities advanced to 41 percent of the 1923-1925 average from 36 percent in the preceding month. At that level the index was slightly higher than in May last year and four points lower than in April 1937, when the value of residential permits issued in the district was larger than in any month in recent years. In the past few months, comparisons with a year ago have been somewhat more favorable for California cities than for cities in the Pacific Northwest. Preliminary data for June point to additional gains in residential building in that month and the adjusted index is tentatively placed at 47 percent of the 1923-1925 average, the highest level since 1929. The recent increase in building has come mainly in lower priced houses. Speculative builders report that, on the whole, houses being built in this class are selling promptly upon completion, according to a survey made late in June.

Available measures indicate that retail trade in the district in May was at least maintained at April levels. This bank's seasonally adjusted index of department store sales was unchanged from the average for the preceding three months, although it was 7 percent lower than in May 1937. Preliminary data for June point to a slightly smaller than seasonal decline in value of sales in that month. Furniture store sales increased substantially in May for the second successive month. Inventories of both department and furniture stores continued to recede moderately and on May 31 were 10 percent lower in value than a year earlier. Sales of new passenger cars remained

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![Graph showing residential building permits from 1929 to 1937](http://fraser.stlouisfed.org/)
unchanged, although some decline has been customary in May of most recent years, and registrations of new commercial vehicles declined somewhat less than seasonally.

Agriculture

Although rainfall was below normal, weather conditions generally were favorable for the growth of most Twelfth District crops during May and early June. Frost damage has been negligible this year, but floods resulting from rapidly melting snow packs in the mountains have caused serious damage in parts of the San Joaquin and Sacramento valleys of California. Irrigation water is ample, and water tables generally are higher than in other recent years. Livestock ranges and pastures improved during May and are now in excellent condition.

Cash income received by district farmers was about the same in May as in April and was more than 23 percent lower than in May last year. In the first five months of 1938, aggregate farm cash income in the district was almost 20 percent smaller than in the comparable period of 1937. Income curtailment has resulted mainly from sharply lower prices of farm products. Reductions in farm prices, which were extremely sharp last fall and winter, have since tended to be more moderate. These declines in prices have been partly the result of larger supplies of most farm products, but they also reflect curtailed consumer purchasing power coincident with the general decrease in business.

Production of Selected Crops—Twelfth District

<table>
<thead>
<tr>
<th>Crop</th>
<th>1937</th>
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<th>1939</th>
<th>1940</th>
<th>1941</th>
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<tr>
<td>Barley*</td>
<td>698</td>
<td>682</td>
<td>718</td>
<td>680</td>
<td>647</td>
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<tr>
<td>Winter wheat</td>
<td>2,084</td>
<td>2,037</td>
<td>1,951</td>
<td>1,839</td>
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<tr>
<td>Apples</td>
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<td>216</td>
<td>248</td>
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<tr>
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<td>Peaches</td>
<td>351</td>
<td>429</td>
<td>516</td>
<td>558</td>
<td>468</td>
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<td>Clingstone</td>
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<td>288</td>
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<td>179</td>
<td>184</td>
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<tr>
<td>Pears</td>
<td>391</td>
<td>368</td>
<td>460</td>
<td>447</td>
<td>511</td>
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<tr>
<td>Plums*</td>
<td>61</td>
<td>48</td>
<td>64</td>
<td>66</td>
<td>61</td>
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<tr>
<td>Prunes*</td>
<td>198</td>
<td>258</td>
<td>139</td>
<td>249</td>
<td>271</td>
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<tr>
<td>Grapefruit</td>
<td>59</td>
<td>102</td>
<td>122</td>
<td>89</td>
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<tr>
<td>Lemons</td>
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<td>408</td>
<td>296</td>
<td>358</td>
<td>338</td>
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<tr>
<td>Oranges*</td>
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<td>Valencia</td>
<td>604</td>
<td>912</td>
<td>642</td>
<td>589</td>
<td>926</td>
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</table>

*California only.

Crop prospects declined during May and it is now expected that district production will be smaller than in 1937. June 1 estimates of barley, rice, cotton, almonds, apricots, peaches, plums, and walnuts point to a reduction in output of these crops from 1937 harvests. Output of winter wheat, cherries, pears, prunes, and all citrus fruits is expected, however, to be larger than a year ago. For other principal district crops, including sugar beets, tame hay, hops, potatoes, apples, and grapes, no estimates are currently available. The relatively large carryover of last year’s crops should be offset to some extent by the prospective decline in output this year. Total supplies of most crops at the beginning of the marketing season should not be much larger this year than last.

Returns to citrus fruit growers in this district have been excellent so far in 1938. Total acreage of early potatoes in southern and eastern competing areas. This factor and the small supplies of late potatoes resulted in extension of the market for early potatoes grown in California to states east of the Mississippi River. Growers received unusually high prices in that area. Prices were not so high in 1937 as in 1936, but growers marketed a record-size crop profitably. Estimates indicate that production of early potatoes in California will be about 10 percent larger this year than in 1937, and prices received to date have averaged at least as high as a year ago.

Livestock came through the past winter and spring months with only slight losses in contrast with the heavy losses which occurred in several areas of the district during the winter and spring of 1936-1937. Except in Arizona, livestock were reported by growers to be in better condition in mid-June than is customary at that time.

The annual eastern movement of early lambs from California was practically completed by mid-June. Shipments for the season totaled 433,000 head, compared with 365,000 head in 1937. Growers in California received smaller than in May 1937. Reduced production of competing deciduous and citrus fruits during the coming summer months should aid California and Arizona citrus fruit growers in the profitable marketing of their crops.

Marketing of early California potatoes increased during May and reached a seasonal peak in June. Production of early potatoes throughout the United States has increased considerably in recent years and estimates for 1938 indicate an output approximately 80 percent larger than the average for the ten years 1927-1936. This expansion has taken place principally in California where the 1938 crop is expected to amount to 10,370,000 bushels, compared with the ten-year average of 2,930,000 bushels. This year California will produce about 36 percent of the early potato crop grown in the United States.

In 1936, severe drought conditions curtailed production of early potatoes in southern and eastern competing areas. This factor and the small supplies of late potatoes resulted in extension of the market for early potatoes grown in California to states east of the Mississippi River. Growers received unusually high prices in that area. Prices were not so high in 1937 as in 1936, but growers marketed a record-size crop profitably. Estimates indicate that production of early potatoes in California will be about 10 percent larger this year than in 1937, and prices received to date have averaged at least as high as a year ago.

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The annual eastern movement of early lambs from California was practically completed by mid-June. Shipments for the season totaled 433,000 head, compared with 365,000 head in 1937. Growers in California received
more than $2,200,000 for lambs shipped east this year. This sum is approximately the same as that received in 1937, the effects of lower prices having been practically offset by the larger number of lambs shipped.

**Banking and Credit**

The decline in loans of district reporting member banks, in evidence since the first of the year, was interrupted during the five weeks ending June 22. Loans for commercial, industrial, and agricultural purposes, which accounted for much of the earlier decline, were unchanged. Loans on real estate increased slightly further. This increase in real estate loans reflects expansion in all principal district cities except San Francisco, largely in loans insured under the National Housing Act.

Adjusted demand deposits of district city banks have increased somewhat further during recent weeks. Time accounts, however, have declined moderately from the relatively high level of early May. On December 31, 1937, the latest date for which detailed information is available, about 83 percent of total time deposits of all district member banks were savings deposits of individuals. The remaining 17 percent of time deposits on that date was made up of various classes of time accounts, including certificates of deposit, open accounts, and term deposits of states, counties, and municipalities.

Savings deposits of district member banks have increased substantially since 1933, and are now much higher than in 1929. This expansion in savings deposits, at a time when interest rates on loans and yields on investments have declined to unprecedented low levels, has been accompanied by a considerable reduction in interest rates paid on savings deposits, as indicated in the table of rates paid by San Francisco banks.

Savings accounts, as the term implies, are meant to be used by the public only for the deposit of their savings, or their surplus as distinct from their current funds. In accepting deposits in savings accounts, member banks reserve the right at any time to require the depositor to give notice in writing of an intended withdrawal not less than 30 days before such withdrawal is made. Under no conditions are depositors permitted to draw checks upon savings deposits.

While convenience of withdrawal is less than in the case of demand accounts, a moderate interest return is received on savings deposits. The maximum rate member banks may pay is subject to regulation by the Board of Governors of the Federal Reserve System and similar regulation is exercised by the Federal Deposit Insurance Corporation over rates paid by insured banks which are not members of the Federal Reserve System. Currently, the maximum specified by both agencies is 2½ percent per annum, compounded quarterly. Somewhat lower rates are being paid at the present time by member banks in the principal Twelfth District cities. In San Francisco, the prevailing rate is 2 percent per annum, with lower rates for larger amounts. One institution pays no interest on the first $50 in a depositor's savings account. At the time of writing, two member banks have announced rates, effective July 1, of 1 percent on balances of $5,000 to $10,000 and ½ of 1 percent on balances above $10,000. In Los Angeles, most banks in recent months have been paying 2 percent on savings accounts up to $3,000, 1½ percent on balances in excess of $3,000 up to $10,000 and 1 percent on any balance in an account above $10,000. Effective July 1, however, rates will be reduced to 1½ percent on balances up to $5,000, to 1 percent on amounts of $5,000 to $10,000, and to ¾ of 1 percent on amounts in excess of $10,000. In Portland, the prevailing rate is 1½ percent. In Seattle, banks generally report a rate of ½ percent on balances up to $7,500 and 1 percent on any balance in excess of that figure. In Spokane, 2 percent is general among all banks but, effective July 1, a reduction to 1½ percent has been announced. In Salt Lake City the current rate ranges from 2 to ½ percent, the latter being paid on balances in excess of $5,000.

**Erratum**

Monthly Review dated June 1, 1938, page 27, last line column 1, word "increase" should be changed to read "decrease."
**Summary of National Business Conditions**

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

In May and the first three weeks of June industrial activity showed little change from the April level. Wholesale commodity prices generally declined further, but in June wheat and cotton prices advanced and at the end of the period some other staple commodities showed increases.

**Production**

In May the Board's seasonally adjusted index of industrial production was at 76 percent of the 1923-1925 average as compared with 77 in April and an average of 79 in the first quarter of the year. Steel ingot production, which in March and April had been at a rate of 33 percent of capacity, averaged about 31 percent in May, and automobile output also showed a decrease. Textile production increased in May. Activity at woolen mills rose sharply and there was some increase at cotton mills, while silk mills showed a decline. Changes in output in most other manufacturing industries were largely seasonal in character. Output of crude petroleum was curtailed sharply in May, and bituminous coal production declined somewhat, while anthracite production increased considerably. Lake shipments of iron ore were in very small volume, reflecting both the low rate of activity in the iron and steel industry and the large supply of ore remaining from the previous season.

In the first three weeks of June output of steel and petroleum increased somewhat, but the rate of activity in these industries remained below the average for May. Automobile production showed a further decline and continued below sales, so that stocks of new cars were further reduced.

Value of construction contracts awarded, as reported by the F. W. Dodge Corporation, showed a substantial increase in May, reflecting chiefly a marked rise in awards for publicly-financed projects. Contracts for residential building increased moderately and were in about the same amount as in May a year ago. Other privately-financed work remained in small volume.

**Employment**

Factory employment and payrolls continued to decline from the middle of April to the middle of May. There were further decreases in employment in the machinery, steel, and automobile industries and a sharp decrease in the number employed in the men's clothing industry. In most other manufacturing lines changes in employment were small in amount. The number employed at mines and on the railroads continued to decline.

**Distribution**

Department store sales declined considerably in May and the Board's seasonally adjusted index was at 79 percent of the 1923-1925 average as compared with 83 in April. Sales at variety stores and by mail order houses also decreased from April to May. Reports for the first half of June indicate about the usual seasonal decline in department store sales.

The volume of railroad freight traffic showed little change in May following sharp declines in previous months.

**Commodity Prices**

Prices of both agricultural and industrial commodities decreased in the latter part of May. In the first three weeks of June wheat and cotton prices advanced, while prices of industrial products generally continued to decline.

**Bank Credit**

Reserves of member banks continued to increase in May and June, largely as the result of Treasury disbursements from its deposits with the Reserve banks. Excess reserves increased chiefly at city banks, reflecting retirement of Treasury bills and further expansion of bankers' balances.

Demand deposits at reporting member banks in 101 leading cities increased further during the first half of June, and total loans and investments, which had declined in May, also increased, reflecting substantial purchases of United States Government obligations by New York City banks.

**Money Rates**

Yields on Treasury bonds declined further in the four weeks ending June 18, and those on Treasury notes reached new low levels. Rates on open-market commercial paper declined somewhat about the middle of June.