

MONTHLY REVIEW

BUSINESS CONDITIONS IN THE TWELFTH FEDERAL RESERVE DISTRICT

Federal Reserve Bank of San Francisco

September 1, 1938

Review of the Month

Although production in the important lumber industry increased further in July, total industrial output in the Twelfth District appears to have changed but little during the month, after allowance for seasonal factors. Inventories held by manufacturers and distributors continued to decline and in a number of lines are reported to have reached levels which necessitated reordering more generally than at any time during the past year. Factory employment in the three Pacific Coast states, excluding employment in the canning industry, was slightly lower in mid-July than a month earlier, after adjustment for seasonal influences. In California and Oregon the decline approximated 3 percent, but in Washington a moderate increase in the number of wage earners was recorded owing to a smaller than seasonal reduction in lumbering. New residential construction expanded further in July, but data covering the first three weeks of August indicate a decline during that month. Retail trade was well maintained at the level of the preceding month.

INDUSTRY

Considerable accumulation of inventories by manufacturers and distributors in the Twelfth District took place during late 1936 and early 1937 when production and trade attained levels higher than at any time since 1929. This accumulation of relatively large stocks of goods was one of the factors which contributed to the sharp curtailment in production during the second half of 1937 and to a further moderate reduction during the first six months of 1938. During this period of sharply reduced production, consumer demand was relatively well maintained and, as a result, output in many industries was exceeded by the movement of goods into consumption. Consequently, inventories of a number of products had been reduced by mid-1938 to levels which were low in relation to current sales.

One important factor in reducing inventories of some leading district products has been the substantial gain in residential building since last December. Not only has this expansion in residential building helped absorb stocks of building materials but, through adding to the income of wage earners in the building trades and of others employed in the fabrication of building materials, it has helped sustain consumer purchases of other products.

Following a considerable increase during the first half of 1938, value of new residential construction undertaken in the district advanced further in July. Because of this continued expansion the seasonally adjusted index of residential building increased from 42 percent of the 1923-1925 average in June to 51 percent in July, approximately the same level as the monthly average during 1929. While a considerable proportion of the July increase was attributable to one large project in Seattle, the value of

new residential facilities begun elsewhere in the district also displayed marked gains. Incomplete data covering the first 23 days of August indicate that the value of permits issued during that month declined from the high July total, although some increase is customary.

Production of lumber has been increased considerably in recent months, the seasonally adjusted index advancing from 59 percent of the 1923-1925 average in May to 63 in June and 67 in July. This compares with 102 in July 1937 and with 55 in December, January, and February, the lowest figure reached during the past year. Orders received by district lumber mills increased in late June and expanded materially in July, reaching a peak in the two weeks ending July 23. Since that date a decrease has occurred, although new business has continued at levels considerably higher than earlier in the year. Reflecting this rise in lumber sales, volume of unfilled orders was 43 percent larger on July 31 than a month earlier. The sharp expansion in orders during July is reported to have been stimulated, in part, by advancing prices for lumber in the Douglas fir area. In late July, these prices averaged about 12 percent above the spring lows.

Total mill inventories of lumber at the end of July were about the same as a year earlier, a sharp increase last fall having been cancelled by declines this spring. While total inventories of finished lumber appear adequate, trade sources indicate that they are not so well balanced as would be desirable, and that a good many mills have been unable to fill orders for some items promptly.

Output of construction steel products, which are used largely in commercial and industrial building and in heavy engineering projects, has shown little significant change in recent months. Reports from fabricators of construction steel state that inventories of raw materials are slightly higher than is warranted by current sales, while stocks of finished products are only nominal, particularly in view of the substantial prospective demand from a number of Federal projects.

Cement production has advanced considerably in California since March, although output in the Pacific Northwest remains sharply below 1937 levels when large quantities of cement were being used in construction of Grand Coulee Dam. The seasonally adjusted index of output for the district advanced one point to 85 percent of the 1923-1925 average in July, when it was 23 percent above the level for the first quarter of the year.

Activity in other industries supplying materials used in residential construction, such as clay products, plaster, and paints has also increased in recent months, according to available data.

In furniture and household appliances, the market for which is affected by new residential construction, retail sales were well maintained in July. Value of sales of district furniture stores in May, June, and July averaged 8 percent higher, in addition to the usual seasonal increase, than in the preceding four months. Retail stocks

have declined continuously since last October, the adjusted index declining from 81 percent of the 1929 average in that month to 67 at the end of July when it was 17 percent lower than a year ago. Manufacturers' stocks are reported to be generally excessive but in some instances are incomplete. As a result a number of closed factories reopened in August for a limited period.

As a result of restrictions adopted to reduce large inventories built up since the summer of 1937, output of mined copper and of crude petroleum declined further in July. With a number of mines and smelters in the Intermountain region closed down, copper output is estimated to have been little more than a third of the July 1937 total. Heavy sales of copper in late June and in July resulted in the reopening of several closed properties on limited schedules in August. Crude petroleum output was reduced in July for the fifth consecutive month, but was unchanged during the first 20 days of August.

Output in other industries for which information is available showed little significant change in July. Production of some consumers goods, including apparel, rubber tires, and automobiles, changed seasonally and activity at aircraft plants continued at the high levels recorded earlier in the year. Flour milling activity advanced in July, although little change usually takes place during the summer months, while slaughter of livestock declined moderately. In most of these lines, inventories of raw and finished materials are now considered by producers to be of satisfactory volume, in relation to current sales. In the woolen textile industry both raw and finished goods at wholesalers and manufacturers are considered to be subnormal. Inventories of woolen and cotton apparel held by manufacturers also have been reduced below the levels of a year ago.

In the pulp industry, stocks are generally excessive and mills are operating at substantially curtailed levels. Exports have declined in recent months and prices have tended to decrease since the first of the year.

Production and Employment—

Index numbers, 1923-1925 average=100	With Seasonal Adjustment			Without Seasonal Adjustment		
	(1938)			(1938)		
	July	June	July	July	June	July
Industrial Production*						
Manufactures (physical volume)						
Lumber	67	63	102	72	73	107
Refined oils	—	—	—	157	142	163
Cement	85	84	106	93	96	116
Meat	112	119	116	—	—	—
Wheat flour	122	118	106	107	104	94
Minerals (physical volume)						
Petroleum	—	—	—	100	102	101
Lead (U. S.)†	54	64	82	52	65	79
Construction (value)						
Urban residential building permits in 18 cities	51	42	34	47	42	31
Public works contracts	—	—	—	643	354	137
Miscellaneous						
Electric power production	187	188	201	209	201	224
Factory Employment and Payrolls‡						
Employment						
Pacific Coast	91	92	115	91	93	115
California	103	105	126	103	105	126
Oregon	74	76	101	77	79	105
Washington	76	72	99	76	75	98
Payrolls						
Pacific Coast	86	87	112	85	90	110
California	98	100	120	97	102	119
Oregon	71	74	107	73	78	109
Washington	67	64	98	63	69	93

*Daily average.

†Prepared by Board of Governors of the Federal Reserve System.

‡Excluding fruit and vegetable canning.

TRADE

The aggregate value of inventories reported by wholesalers has declined almost without interruption since the late fall of 1937, and on July 31 was 12 percent lower than a year ago. The decrease in stocks of goods has been fairly general during the past year. Stocks of automobile supplies and dry goods have displayed little change since the first of the year, most of the decline in those commodities having taken place in late 1937. Stocks of drugs, electrical goods, furniture, groceries, hardware, and plumbing and heating supplies, however, have undergone sharp declines during 1938. Inventories of paper held by mills and distributors are reported to be relatively low in volume.

Stability in district consumer purchases since last winter, except for automobiles, is evidenced by sales of local department stores. Value of sales declined slightly more than seasonally in July but, at 89 percent of the 1923-1925 average, this bank's adjusted index was only one point lower than the January-June average. Since the end of February, value of inventories of department stores has declined 3 percent after allowance for seasonal influences. Reports from the trade indicate that stocks of dry goods are not heavy in relation to current sales volume, although inventories of some types of clothing are still somewhat large.

Retail sales of automobiles and trucks have been stable since May, after allowance for seasonal influences. Stocks of new passenger cars held by district distributors and in factory warehouses on July 31 were reported to be lower than at any month-end since the fall of 1936.

AGRICULTURE

Reports as of August 1 indicate that total crop output in the district will be smaller this season than last, but larger than average production during recent years.

CROP PRODUCTION—TWELFTH DISTRICT (In thousands)

	Average 1927-1936	1936	1937	Indicated 1938
Grains				
Barley (bu.)	39,868	41,444	40,772	40,508
Oats (bu.)	25,741	30,445	27,939	22,424
Wheat (bu.)	107,014	112,571	121,141	124,759
Field Crops				
Beans (bags)	4,931	5,506	7,353	5,781
Cotton (bales)	352	633	1,051	597
Tame hay (tons)	11,672	11,948	11,693	11,748
Hops (lbs.)	32,753	25,156	44,399	37,920
Potatoes (bu.)	48,951	52,897	66,293	59,865
Rice (bu.)	7,664	8,566	10,150	8,910
Sugar beets (tons)	2,232	3,094	2,892	3,672
Fruits and Nuts				
Almonds (tons)	11	8	20	12
Apples (bu.)	50,849	44,752	50,123	47,225
Apricots (tons)	222	248	311	180
Cherries (tons)	51	62	53	82
Grapes (tons)	1,940	1,723	2,462	2,315
Peaches (bu.)	24,166	24,090	24,564	22,932
Pears (bu.)	16,287	19,152	18,616	21,702
Plums (tons)	61	64	66	64
Prunes (tons)	227	188	256	293
Walnuts (tons)	41	43	59	44
Citrus Fruits*				
Grapefruit (boxes)	1,976	4,067	2,710	4,444
Lemons (boxes)	7,426	7,787	7,579	8,892
Oranges (boxes)	32,231	33,049	29,827	42,766

*Crop year ended October 31 of years shown.

Source: United States Department of Agriculture.

The reduced volume of crop production in comparison with last year has been accompanied by generally lower prices for commodities, and farm income is, consequently, less satisfactory than a year ago. This relatively unsatis-

factory condition has resulted in renewed efforts to aid agricultural producers of the district through Federal and State marketing agreements, control of production, loans, purchases of crop surpluses, and the like.

Citrus growers are now marketing a record size Valencia orange crop. While prices have advanced sharply since June, the average for July was lower than in any corresponding month since 1933. As a result returns to growers have been about 20 percent smaller than a year ago, despite the larger volume of marketings.

In direct contrast with last year when canners of deciduous fruits were active in the field buying supplies of fruit at relatively high prices, demand has been extremely slow this season. Carryover supplies of canned goods in producers and distributors warehouses are large, and this season's packs of most fruits are expected to be markedly smaller than output last year. Growers are receiving prices from 50 to 70 percent lower than last season.

Although deciduous fruit crops are expected to be smaller in the aggregate than last year, a record crop of pears is anticipated, owing to larger bearing acreage and higher yields per tree. August 1 estimates indicate that the pear harvest will be about 21,000,000 bushels this year, compared with 18,616,000 produced in 1937, and a 10-year (1927-1936) average output of 16,287,000.

First estimates of this year's cotton crop in Arizona and California, released August 8, indicate a reduction of 43 percent from the 1937 record output. Growers expect to harvest 597,000 bales, compared with 1,051,000 bales produced last year and an average harvest of 352,000 bales during the years 1927 through 1936. Although the yield per acre is expected to be somewhat lower than in 1937, the main factor in the smaller crop has been the reduced acreage planted under the curtailment program of the Agricultural Adjustment Administration.

Growers of hops in California, Oregon, and Washington are now, according to latest estimates, harvesting a crop of 38,000,000 pounds, which should return to them about \$7,000,000. Although the export of hops (chiefly to the United Kingdom) has declined from the early

1920's, an important part of the domestic crop still moves to foreign markets. (Commercial production of hops in the United States is limited substantially to the three Pacific Coast states.) Exports from September 1, 1937, through June of this year totaled 5,581,000 pounds, more than double the unusually small shipments during the same months last season.

CREDIT AND BANKING

Figures reported by all member banks in the Twelfth District as of June 30, 1938, show that loans declined considerably during the first half of this year, but that they were more than \$40,000,000 larger on June 30 than a year earlier. Most of the decline in the first half of the year reflected a material reduction in the "other" loan classification. Loans in that classification consist principally of advances to customers for commercial, industrial, and agricultural purposes but also include miscellaneous advances such as personal installment loans and Federal Housing Administration loans for modernization. Despite the decline during the first six months of 1938, aggregate loans of this type were moderately

EARNING ASSETS—TWELFTH DISTRICT MEMBER BANKS

	June 30, 1938	Changes since	
		Dec. 31, 1937	June 30, 1937
Total loans.....	1,818,996	-51,864	+42,519
Open market paper.....	38,962	-12,886	-5,228
Loans on securities			
to brokers and dealers.....	13,349	-3,557	-12,208
Loans on securities to others.....	234,436	-14,306	+477
Loans on real estate			
On farm land.....	95,993	+304	+1,071
On other real estate.....	664,727	+30,195	+41,490
Loans to banks.....	1,808	+192	+122
Other loans.....	769,721	-51,422	+17,749
Total investments.....	1,798,920	+29,864	-42,675
U. S. direct obligations.....	1,074,131	+17,828	+1,780
U. S. guaranteed obligations.....	228,730	+14,593	+8,575
Other obligations.....	496,059	-2,557	-53,030

larger on June 30 than a year ago. Open market paper, which consists largely of bills drawn to finance commercial and industrial operations but includes paper of companies engaged in financing consumer purchases of durable goods, also declined from December 31, 1937, to June 30, 1938. In addition, reductions took place in advances to brokers and dealers in securities and in loans on securities to others. In contrast with these declines, loans on real estate expanded further during the first six months of 1938, continuing the increase in evidence during the last half of 1937. The increase occurred almost entirely in loans on non-farm properties, and largely reflects active expansion in residential building in the district in recent months.

Total investments, unlike loans, increased from December 31, 1937, to June 30, 1938, but on the later date were considerably lower than a year earlier. The year-period decline was accounted for entirely by a reduction in holdings of securities of states, counties, and other administrative areas and of private corporations; investments in Federal Government securities increased.

From the end of June through the week ending August 24, total loans of district city banks declined. The reduction took place almost entirely in loans for commercial and industrial purposes and in open-market paper. Investments of city banks expanded further, gains taking place in holdings of both Government and other securities.

Distribution and Trade—

Index numbers, 1923-1925 average=100	With Seasonal Adjustment			Without Seasonal Adjustment		
	1938		1937	1938		1937
	July	June	July	July	June	July
Retail Trade						
Department store sales (value)*						
Twelfth District.....	89	90	97	73	80	79
California.....	95	96	102	78	84	84
Los Angeles.....	88	86	95	75	75	82
Bay Region.....	100	104	108	81	91	88
San Francisco.....	98	102	105	81	90	86
Oakland.....	104	111	117	82	97	92
Pacific Northwest.....	68	69	78	54	63	61
Seattle.....	79	78	88	63	72	70
Salt Lake City.....	73	76	77	53	67	56
Department store stocks (value)†.	64	64	72	61	61	68
Furniture store sales (value)*†.	74	74	94	68	71	86
Furniture store stocks (value)††.	67	68	81	67	69	81
Automobile sales (number)*						
Total.....	—	—	—	74	84	144
Passenger.....	—	—	—	68	77	133
Commercial.....	—	—	—	144	152	255
Carloadings (number)*						
Total.....	76	75	96	77	80	97
Merchandise and misc.....	86	90	99	92	92	105
Other.....	64	59	94	59	66	87
Intercoastal Traffic (volume)						
Total.....	51	51	64	55	49	70
Eastbound.....	43	43	55	47	40	60
Westbound.....	80	76	101	81	79	103

*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 activity increased in July, when there is usually a considerable decline, and rose somewhat further in the first three weeks of August.

PRODUCTION

Volume of industrial production increased from 77 percent of the 1923-1925 average in June to 83 percent in July, according to the Board's index which is adjusted for changes in the number of working days and for usual seasonal variations. Steel output rose sharply, lumber production also increased, and output of cement and glass was maintained. Automobile production declined somewhat further. In the first three weeks of August activity at steel mills was at a rate of around 40 percent of capacity as compared with an average of 35 percent in July, while in the automobile industry there was more than the usual seasonal reduction in output as producers closed plants somewhat earlier than in other recent years to prepare for the shift to new model production.

At textile mills activity in July showed a further rise, marked increases being reported in mill consumption of cotton and wool and in shipments of rayon yarn. Shoe production also increased substantially, following a decline in June.

Bituminous coal production advanced somewhat in July, and output of crude petroleum was at a much higher rate, reflecting chiefly a return to production on a six-day week basis in Texas. Anthracite production decreased sharply following a considerable volume of output during May and June.

Value of construction contracts awarded in 37 eastern states showed little change from June to July, according to figures of the F. W. Dodge Corporation. Contracts for residential building continued to increase, and there was an increase also in commercial building, reflecting the award of a contract for a large office building. Factory construction remained at a low level and declines were reported in most other types of construction.

EMPLOYMENT

Factory employment and payrolls, which usually decline at this season, increased somewhat from the middle of June to the middle of July. There were substantial increases in the number employed at textile mills, clothing establishments, and shoe factories, and at railroad repair shops there was a slight increase. In the machinery and automobile industries employment declined somewhat further. In nonmanufacturing industries the principal changes in employment were a decrease at mines and an increase on the railroads.

AGRICULTURE

A domestic cotton crop of 12,000,000 bales was indicated on August 1, according to the Department of Agriculture. Last season the crop was 19,000,000 bales and, with world consumption of American cotton about 11,000,000 bales, the carryover increased sharply to 13,500,000 bales. The wheat crop was forecast at 956,000,000 bushels, as compared with 874,000,000 bushels harvested last year and usual domestic consumption of about 670,000,000 bushels. Production estimates for most other major crops were slightly under the large harvests of a year ago. Preliminary estimates by the Department of Agriculture indicate that cash farm income, including Government payments, will total \$7,500,000,000 for the calendar year 1938, a decline of 12 percent from last year, which was the highest since 1929.

DISTRIBUTION

In July department store sales declined by less than the usual seasonal amount, while sales at variety stores and mail-order houses decreased seasonally. Retail sales of automobiles increased somewhat, although there is ordinarily a decline in July. In the first half of August sales at department stores showed less than the usual seasonal rise.

Freight-car loadings increased from June to July, reflecting chiefly larger shipments of grain, coal, and miscellaneous freight.

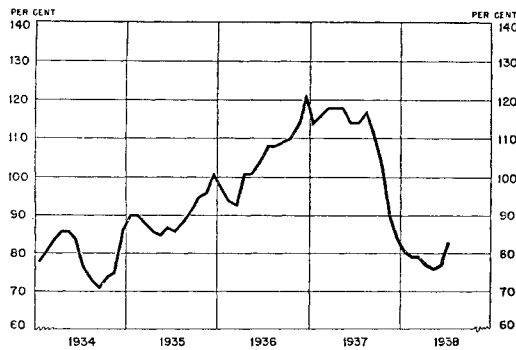
COMMODITY PRICES

Prices of grains, cotton, livestock, and meats were lower in the third week of August than in the middle of July, while prices of most industrial commodities were unchanged. Steel scrap advanced further in July, then declined somewhat in the first half of August. Cotton grey goods also declined in the early part of August, while prices of copper and rubber were maintained, following increases in the latter part of July.

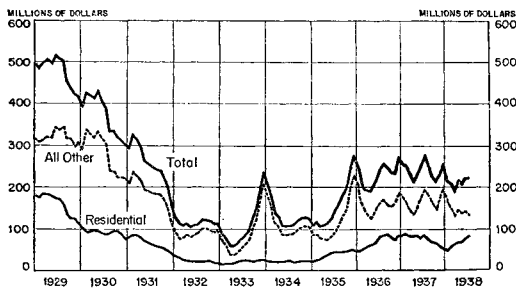
BANK CREDIT

Excess reserves of member banks declined by about \$230,000,000 in the five weeks ending August 17 to a total of \$2,930,000,000, following a steady growth from the middle of April to a peak on July 13. The decline in reserves was largely the result of an increase in Treasury deposits with the Reserve banks, reflecting receipts from weekly Treasury bill offerings in excess of maturities and a sale of Reconstruction Finance Corporation notes. Most of the decrease in excess reserves was at city banks.

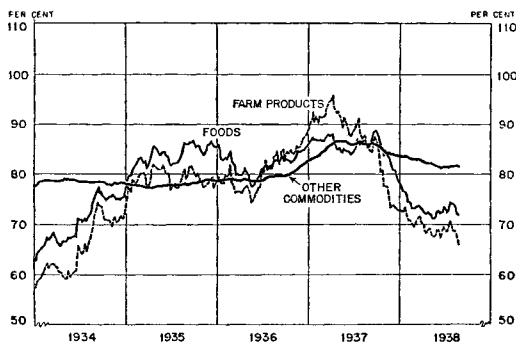
Following substantial declines since the autumn of last year, commercial loans and brokers' loans at reporting member banks in 101 leading cities increased somewhat during the first half of August. Member banks in leading cities added about \$170,000,000 to their holdings of investments in the middle of July, mainly United States Government guaranteed obligations, but thereafter their holdings showed little change.



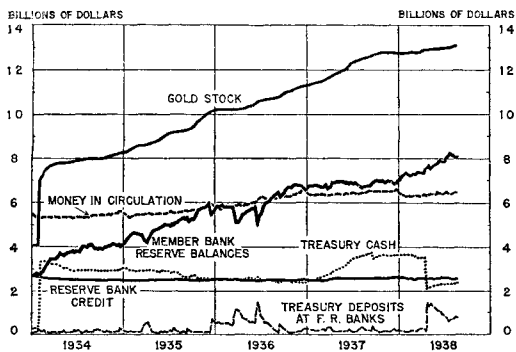
INDUSTRIAL PRODUCTION
Index of physical volume of production, adjusted for seasonal variation, 1923-1925 average=100. By months, January 1934 to July 1938.



CONSTRUCTION CONTRACTS AWARDED
Three-month moving averages of F. W. Dodge data for value of contracts awarded in 37 Eastern states, adjusted for seasonal variation. Latest figures based on data for May and June and estimate for July.



WHOLESALE PRICES
Indexes compiled by the United States Bureau of Labor Statistics, 1926=100. By weeks, 1934 to week ending August 20, 1938.



MEMBER BANK RESERVES AND RELATED ITEMS
Wednesday figures, January 3, 1934 to August 17, 1938.