

MONTHLY REVIEW

BUSINESS CONDITIONS IN THE TWELFTH FEDERAL RESERVE DISTRICT

Federal Reserve Bank of San Francisco

October 1, 1938

Review of the Month

The full seasonal expansion in new residential building took place in the Twelfth District during August, with the result that activity continued at the relatively high level to which it had advanced since the beginning of this year. Further gains were reported in output of industries dependent upon building for a market, but aggregate production of other industries was about the same as in July, and trade activity remained near the levels of other recent months. Mainly because of increased operations at lumber mills, factory employment rose somewhat more than seasonally in Oregon, while the adjusted index for Washington continued at the July level. In California, however, slightly less than the usual seasonal advance took place, with the result that this bank's adjusted index of employment in the three Pacific Coast states remained at 91 percent of the 1923-1925 average. At that level it compared with 92 in April, May, and June of this year, and 112 in August 1937. Reflecting increased working hours as well as additions to the number of workers employed, total wages paid advanced considerably more than seasonally during August in the Pacific Northwest. This increase more than offset a small decline in California, and the adjusted index for the three states advanced two points to 88 percent of the 1923-1925 average.

While retail and wholesale trade expanded sharply in August, increases were of approximately seasonal proportions. The adjusted indexes of the value of sales at department and furniture stores were practically the same as in June and July, and registrations of new automobiles declined moderately as is customary in August. On a seasonally adjusted basis, inventories of department and furniture stores were the same on August 31 as a month earlier. Owing principally to declines in stocks of electrical goods, general hardware, and plumbing and heating supplies, aggregate value of wholesalers' inventories declined slightly during the month. During the two weeks ended September 17 department store sales in leading district cities, excluding San Francisco, were only 2 percent lower in value than in the comparable weeks last year. Figures for San Francisco are excluded from that comparison because they have been affected abnormally by strike conditions which have existed since early in the month.

Reflecting a smaller volume of marketings and a much lower level of prices, district agricultural cash income was some 20 percent lower in August 1938 than in

August 1937, approximately the same percentage decline as that reported for the first eight months of the year.

RESIDENTIAL BUILDING

This bank's index of new residential building in the Twelfth District, previously based upon data for 18 larger cities, has recently been revised to include the value of permits issued in 197 cities and in the unincorporated portion of Los Angeles County. Figures used in the revised index include practically all of the residential building statistics which are readily available in satisfactory form. Although considerable building occurs in small towns and in unincorporated areas for which building figures are inadequate or lacking, by far the bulk of residential construction in this district is covered by available data. The revised index for 197 cities and Los Angeles County unincorporated, is, therefore, considered to be a satisfactory measure of changes in value of residential building in the district as a whole. At the time of the 1930 Census, approximately 63 percent of district population was located in the cities and in the county territory covered by the revised index.

Indexes for regions within the Twelfth District also have been prepared and are charted on the following page. The importance of each region in the district building total is indicated roughly by the table below.

RESIDENTIAL BUILDING PERMITS—1937

Area	Value	Percent of Population of Specified Region (Covered by Index)	
		Total	Urban*
Southern California (65 cities and Los Angeles County unincorporated)	\$90,851,000	89	98
Northern California (63 cities)	34,294,000	61	93
Oregon (19 cities)	5,782,000	48	93
Washington (23 cities)	6,374,000	51	91
Intermountain (27 cities)	7,306,000	30	80
Twelfth District (197 cities and Los Angeles County unincorporated)	\$144,607,000	63	94

*Incorporated places having a population of 2,500 or more (1930 Census).

Coverage in some regions is less complete than in others, but it is believed that each regional index, as well as the total index, is a satisfactory indicator of changes in residential building in the area covered.

As shown by the charts, new residential building in the Twelfth District was at extremely low levels during the three years 1932-1934. A substantial expansion began in 1935, however, and continued through April 1937. In that month the seasonally adjusted index for the district reached 48 percent of the 1923-1925 average, and was

only slightly lower than the average for 1929. Increases in the value of permits issued during this period extended throughout the district. The largest percentage gain occurred in the Intermountain cities, while the largest dollar increase came in southern California. In southern California a marked increase occurred in Los Angeles County, especially in the unincorporated area which is now included in the index for the first time. For example, permits in that part of the county totaled \$12,290,000 in 1937, an increase of 52 percent over the \$8,089,000 reported for 1936.

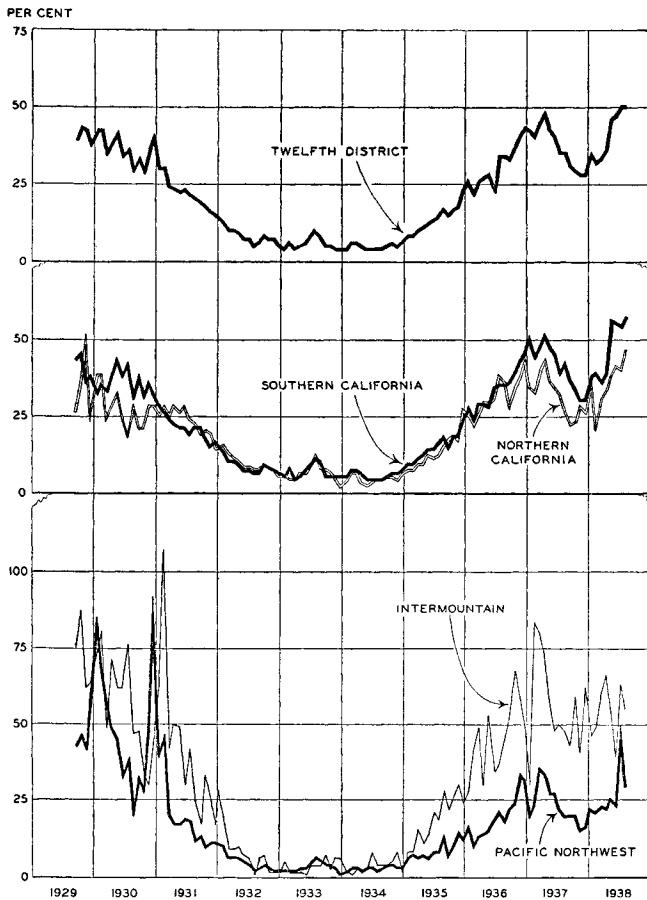
After April 1937, new residential construction in the district decreased sharply, owing mainly to rapid advances in construction costs and in other items entering

the adjusted index had exceeded the previous post-depression peak reached in April 1937, and in July it advanced from 47 to 50 percent of the 1923-1925 average. Value of permits increased by the full seasonal amount in August, despite the fact that the July figure had included \$1,000,000 of permits issued in connection with the large Madison Park rental project in Seattle.

Movements of the regional indexes have differed considerably in recent months. The seasonally adjusted index for southern California rose sharply from 39 in April to 56 in May. Since then it has remained comparatively stable. The index for northern California, on the other hand, has increased almost steadily from 21 in February to 46 in August. During the same period, residential building in Oregon, Washington, and the Intermountain states has expanded irregularly and by much more modest proportions.

AGRICULTURE

Farm income in this district continues substantially less than a year ago. Following a slight increase in July, average farm prices declined in August to a level about 25 percent lower than a year earlier. Volume of crop marketings was also smaller than a year ago, and total district agricultural income was from 20 to 25 percent less than in August 1937. During the calendar year to date, income has been about 20 percent smaller than last season. Reduced income from crop sales has been the chief factor in this decline, since cash returns to livestock growers decreased only about 8 percent. This marked reduction from income received last year has not been uniform in all parts of the district. Principally because of large marketings of cotton held over from the 1937 crop, cash income of Arizona farmers showed a



RESIDENTIAL BUILDING PERMITS—Twelfth District
Index of value of permits, adjusted for seasonal variation. (1923-1925 average=100). By months, September 1929 to August 1938.

into the final selling price of new houses. The seasonally adjusted index, which had been 48 percent of the 1923-1925 average in April 1937, dropped to 28 in November. Building remained at that level in December, but immediately after the beginning of this year an expansion in activity commenced. Aided by amendments to the National Housing Act in February, liberalizing the terms upon which houses might be purchased and large scale rental projects financed, this expansion was even more rapid than the abrupt decline in 1937. Much of this increase represented construction of smaller homes, ranging in price up to \$6,000, which benefited most from the new provisions of the National Housing Act. By June,

Production and Employment—

Index numbers, 1923-1925 average=100	With Seasonal Adjustment (1938-1937)			Without Seasonal Adjustment (1938-1937)		
	Aug.	July	Aug.	Aug.	July	Aug.
Industrial Production*						
Manufactures (physical volume)						
Lumber	73	66	87	86	71	103
Refined oils	—	—	—	156	157	167
Cement	92	85	109	102	93	122
Meat	120	112	117	—	—	—
Wheat flour	112	122	119	112	107	119
Minerals (physical volume)						
Petroleum	—	—	—	101	100	102
Lead (U. S.)†	..	54	82	..	52	79
Construction (value)						
Residential building permits‡						
Twelfth District	50	50	35	50	48	35
Southern California	57	54	42	56	52	42
Northern California	46	40	26	45	36	25
Oregon	32	31	22	32	30	22
Washington	26	64	18	30	69	21
Intermountain states	55	63	48	61	69	54
Public works contracts	—	—	—	332	643	212
Miscellaneous						
Electric power production	193	184	207	212	205	227
Factory Employment and Payrolls‡						
Employment						
Pacific Coast	91	91	112	94	92	116
California	102	103	125	105	103	129
Oregon	76	74	96	81	77	102
Washington	76	76	93	78	76	96
Payrolls						
Pacific Coast	88	86	112	91	85	115
California	97	98	120	100	97	124
Oregon	79	72	106	86	73	114
Washington	74	66	96	75	63	96

*Daily average.
†Prepared by Board of Governors of the Federal Reserve System.
‡Includes figures from 197 cities and Los Angeles County, unincorporated.
‡Excluding fruit and vegetable canning.

gain of 22 percent, while a substantial increase in live-stock marketings gave Nevada farmers a 15 percent larger total income than in the first eight months of 1937. Owing mainly to low prices for potatoes, wheat, and apples, income reported for the Pacific Northwest has declined about 30 percent. Smaller receipts from truck crops and citrus fruits were especially important in lowering income in California by 19 percent. For Utah, the decline approximated 13 percent, reflecting generally lower income from sales of crops since value of livestock and livestock products marketed was about the same as a year ago.

Conditions in the apple growing industry are, in contrast with a year ago, relatively favorable. In Oregon, Washington, and Idaho, the commercial apple crop, or that portion of the crop which will be sold for fresh consumption, is expected to be about 27 million bushels.

APPLES, COMMERCIAL PRODUCTION—TWELFTH DISTRICT
(in thousands of bushels)

	Average 1927-1936	1935	1936	1937	Indicated 1938
California	4,945	5,162	4,757	5,417	3,950
Idaho	3,759	3,800	2,256	3,100	2,500
Oregon	2,905	2,131	2,808	2,154	2,700
Washington	24,892	21,362	20,600	22,330	21,700
Twelfth District	36,950	32,874	30,960	33,249	31,202
United States.....	92,821	93,866	67,945	115,501	82,187

This is slightly less than last year's crop and about 15 percent less than the long term average. Total supply of United States apples is expected to be much smaller than last season because of substantial reductions in output of other districts. Since the Pacific Northwest crop will be about 34 percent of United States output this year, compared with 24 percent last season, this region's crop will encounter less competition than in 1937 from apples grown elsewhere in the United States. The apple crop in foreign countries is also smaller than a year ago and this may increase exports from the Pacific Northwest.

Prospective returns from this season's wheat crop are poor. With a substantial carryover of wheat from last

year and a large crop this year, current prices are lower than at any time since 1933, although the Government is extending no-recourse loans to growers, is buying surplus supplies for relief distribution, and is subsidizing exports. For the second consecutive year the wheat crop in the Pacific Northwest is of near-record size. Latest estimates indicate a crop of 103 million bushels, compared with 98 million bushels harvested in 1937, and an average annual outturn of 89 million bushels during the ten years 1927-1936. With this crop and a carryover estimated by the trade to approximate 20 million bushels, total supplies are of record proportions, and far exceed the amount of Twelfth District wheat that has been marketed in any recent year.

CREDIT AND BANKING

Total earning assets of Twelfth District city banks increased sharply in the four weeks ending September 21. This increase was largely accounted for by a substantial expansion in investments, reflecting sales by the United States Treasury of new issues of bonds and notes. Excluding exchanges for maturing issues, approximately \$56,400,000 of new Treasury bonds and notes were allotted to purchasers in the Twelfth District. Total loans of city banks also increased during the four-week period. Loans for commercial, industrial, and agricultural purposes advanced moderately from the low level reported in mid-August, interrupting a decline that had been in

**CONDITION OF REPORTING MEMBER BANKS
TWELFTH DISTRICT**
(in millions of dollars)

	Sept. 21, 1938	Change from		
		Aug. 24, 1938	Jan. 5, 1938	Sept. 22, 1937
Total loans	990	+18	-51	-56
Commercial, industrial and agricultural loans	343	+13	-28	-34
Open market paper.....	22	-1	-17	-13
Loans to brokers and dealers in securities	10	0	-5	-13
Other loans for purchasing or carrying securities.....	56	+1	-3	-1
Real estate loans.....	379	+1	+6	+11
Loans to banks.....	2	0	-1	0
Other loans	178	+4	-3	-6
Total investments.....	1,162	+13	+83	+78
U. S. Government direct obligations. Obligations fully guaranteed by	739	+25	+72	+65
U. S. Government.....	121	-7	-3	-3
Other securities.....	302	-5	+14	+16
Total deposits	2,310	+13	+89	+84
Demand deposits—adjusted.....	904	+2	+41	+3
Time deposits.....	1,018	-7	-23	+8
U. S. Government deposits.....	105	+13	+44	+58
Deposits of other banks.....	283	+5	+27	+15

Distribution and Trade—

Index numbers, 1923-1925 average=100	With Seasonal Adjustment (1938) (1937)			Without Seasonal Adjustment (1938) (1937)		
	Aug.	July	Aug.	Aug.	July	Aug.
Retail Trade						
Department store sales (value)*						
Twelfth District	90	89	98	86	73	85
California	95	94	105	94	78	103
Los Angeles.....	90	88	102	90	75	101
Bay Region.....	100	100	109	98	81	107
San Francisco.....	100	98	108	96	81	104
Oakland	101	104	114	107	82	121
Pacific Northwest.....	72	69	75	65	54	68
Seattle	83	79	90	75	63	82
Salt Lake City	77	72	81	62	53	64
Department store stocks (value)†	65	64	72	63	61	70
Furniture store sales (value)*‡	75	74	97	78	68	100
Furniture store stocks (value)†‡	67	67	80	65	67	77
Automobile sales (number)*						
Total	—	—	—	69	74	140
Passenger	—	—	—	61	68	130
Commercial	—	—	—	148	144	252
Carloadings (number)*						
Total	78	76	89	91	77	104
Merchandise and misc.....	87	86	96	102	92	112
Other	68	64	82	78	59	94
Intercoastal Traffic (volume)						
Total	55	51	73	58	55	76
Eastbound	45	43	57	48	47	60
Westbound	89	80	127	91	81	130

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

evidence since the beginning of this year. Loans on real estate continued to expand slightly, and on September 21 loans outstanding at offices of reporting banks located in the seven leading cities of this district totaled \$379,000,000, compared with \$368,000,000 a year earlier.

After having increased from about \$150,000,000 in mid-1933 to approximately \$550,000,000 in September 1937, member bank reserve balances in the Twelfth District have fluctuated with little net change during the past year. In the first two weeks of September 1938 they averaged \$536,000,000. Excess reserves during that period amounted to \$131,000,000, or 32 percent of requirements, and were approximately at the level reported in the two weeks immediately following the reduction in reserve requirements which became effective April 16, 1938.

Summary of National Business Conditions

Prepared by the Board of Governors of the Federal Reserve System

INDUSTRIAL activity increased considerably in August and advanced further in September. Factory employment and payrolls also showed a substantial rise in August, and distribution of commodities to consumers increased seasonally.

PRODUCTION

Volume of industrial production showed a further considerable increase in August, and the Board's seasonally adjusted index rose from 83 to 88 percent of the 1923-1925 average. In manufacturing, increases in output were general except in the automobile industry where there was a sharp seasonal decline as plants were closed for inventory taking and for preparations for the shift to new model production. At steel mills, where activity had risen considerably in July, there was a further advance in August and production was at an average rate of 42 percent of capacity as compared with 35 percent in the previous month. Output of lumber and plate glass also increased. In the textile industry the sharp advance that had been underway since early summer continued. Mill consumption of wool and cotton increased further, and deliveries of rayon were maintained at the high level reached in July. Shoe production showed a further increase and activity at meat-packing establishments showed less than the usual seasonal decline. Production of bituminous coal and crude petroleum increased somewhat further. In the first three weeks of September, steel ingot production continued to increase, while automobile production remained at the low level reached in August, and output of crude petroleum was reduced, as wells in Texas were closed on both Saturdays and Sundays, whereas in August only Sunday closings had been required.

Value of construction contracts awarded in 37 eastern states increased considerably in August, according to figures of the F. W. Dodge Corporation. The increase was in publicly-financed projects and reflected partly the expansion of the Public Works Administration program and the award of the first contract for the slum clearance projects of the United States Housing Authority. Awards for private residential building continued at about the same rate as in July and were close to the level reached in the spring of 1937. Commercial building, which had increased in July owing to the award of a contract for a large office building, declined in August to about the level of other recent months.

EMPLOYMENT

Factory employment and payrolls showed a marked rise from the middle of July to the middle of August, while in nonmanufacturing industries employment showed little change. The number employed at factories producing durable goods increased for the first time since the summer of 1937 and in the nondurable goods industries, where employment had increased in July, there was a further rise. Most leading industries reported increases in the number of workers.

DISTRIBUTION

Distribution of commodities to consumers increased seasonally from July to August. Department store sales showed about the usual rise, and mail order sales increased, while variety store sales declined. In the first half of September, sales at department stores increased more than seasonally.

Freight-car loadings increased somewhat further in August, reflecting chiefly larger shipments of miscellaneous freight.

COMMODITY PRICES

Prices of silk and rubber showed some advance from the middle of August to the third week of September and there were also increases at the end of the period in nonferrous metals. Wheat prices fluctuated considerably but showed little net change in this period. Prices of cotton and wool declined somewhat, and there were further decreases in prices of some finished industrial products.

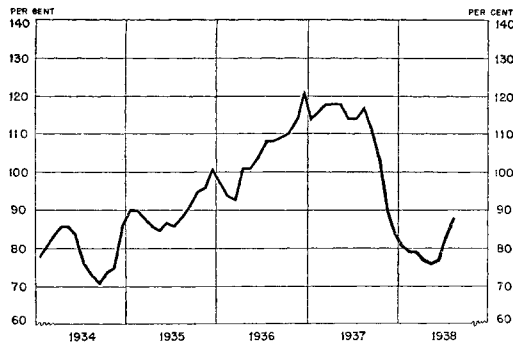
BANK CREDIT

A heavy inflow of gold from abroad during the five weeks ending September 21 resulted in an increase of over \$500,000,000 in the monetary gold stock. Member bank reserves were increased by Treasury payments for gold acquired but were sharply reduced in the last week of the period by payments to the Treasury for cash purchases of new securities and quarterly income tax collections. As a consequence of these transactions, excess reserves, which had increased to \$3,130,000,000 were reduced to \$2,740,000,000 on September 21.

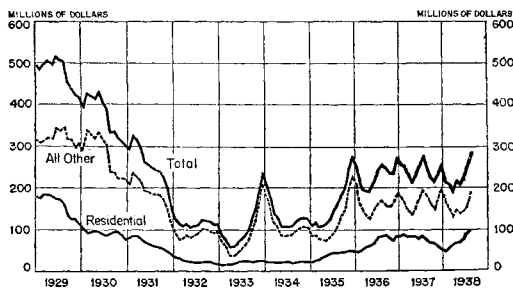
Total loans and investments of reporting member banks in leading cities increased sharply during August and the first three weeks of September, reflecting chiefly an increase in holdings of United States Government obligations. Balances held in New York City for foreign banks showed a substantial increase.

MONEY RATES AND BOND YIELDS

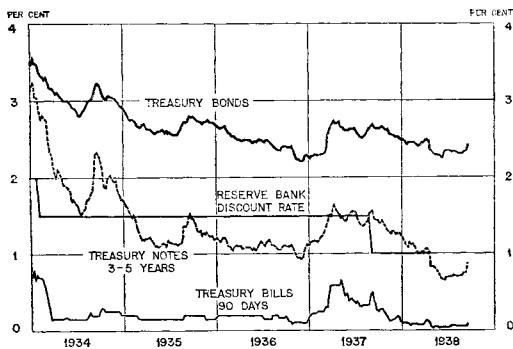
The average yield on long-term Treasury bonds increased in September from the low point reached at the end of August. The average rate on new issues of Treasury bills increased to 0.11 percent, compared with 0.05 percent. Yields on high-grade corporate bonds increased slightly.



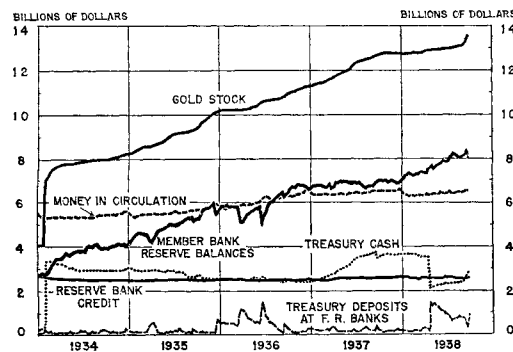
INDUSTRIAL PRODUCTION
Index of physical volume of production, adjusted for seasonal variation, 1923-1925 average=100. By months, January 1934 to August 1938.



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 July and August and estimate for September.



MONEY RATES IN NEW YORK CITY
Discount rate of Federal Reserve Bank; weekly averages of daily yields on 3 to 5 year Treasury notes and on Treasury bonds callable after 8 years, and weekly average of daily dealers' quotations on 90-day Treasury bills or rate on new bills offered in week. For weeks ending January 6, 1934, to September 17, 1938.



MEMBER BANK RESERVES AND RELATED ITEMS
Wednesday figures, January 3, 1934 to September 21, 1938.