

# MONTHLY REVIEW

## BUSINESS CONDITIONS IN THE TWELFTH FEDERAL RESERVE DISTRICT

*Federal Reserve Bank of San Francisco*

*November 1, 1938*

### **Review of the Month**

Further expansion in Twelfth District industrial activity, as measured by figures of output, employment, and payrolls, took place during September. This expansion in industrial activity during September was accompanied by a district-wide reduction in retail sales of commodities which, however, was succeeded in the first three weeks of October by improved retail trade.

District output of lumber, cement, and copper expanded further in September, but, as in the preceding few months, the level of production of other industries showed little or no change in the aggregate. In the lumber industry, output increased for the fifth consecutive month, and this bank's seasonally adjusted index advanced six points to 78 percent of the 1923-1925 average. Data covering the first half of October indicate a possible further small increase in that month, although, as in September, a moderate decline is customary. Output in most recent weeks has been somewhat in excess of new orders received by mills, but on a daily average basis the volume of new orders received was 4 percent higher in the first half of October than in September. Mill stocks in the district as a whole increased more than seasonally in September and October, and mill prices for lumber weakened slightly. The increase in cement output during September brought the seasonally adjusted index to 99 percent of the 1923-1925 average, compared with 92 in August and 97 in May, the previous high for 1938. Copper mining and smelting activity also increased, continuing the expansion evident in August from the severely curtailed level reached in July when a number of properties were closed down.

The number of wage earners employed at factories and mills of the Pacific Coast states increased during September, the seasonally adjusted index advancing two points to 93 percent of the 1923-1925 average. Total wages paid also increased more than seasonally, and were 3 percent higher than the January-August average. The increase reflected a rise in activity in Oregon and Washington; little or no change was recorded in California.

Residential building activity, measured by the value of permits issued in 197 district cities and the unincorporated area of Los Angeles County, was about as high in September as in August. Because the value of permits did not show the usual moderate increase in September, the adjusted index declined for the first time in seven months. Figures available for the principal district cities during the first three weeks of October point to an advance in the seasonally adjusted index of building permits for the entire month.

Value of department store sales, which ordinarily are used as an indicator of changes in retail commodity sales, declined sharply in September after allowance for seasonal influences. Much of this decline was accounted for by the strike of department store employees in San Francisco. Even after making full allowance for this factor,

however, a considerable decrease in sales of district department stores was recorded in September, owing to fairly sharp declines in practically all cities and regions for which adjusted indexes are computed. As discussed in the following section, sales had been unusually stable during the preceding seven months, when the adjusted index did not deviate more than one point from the seven months' average. Figures available for the first three weeks of October show a general improvement in department store sales throughout the district during that period, in contrast with relatively poor September trade.

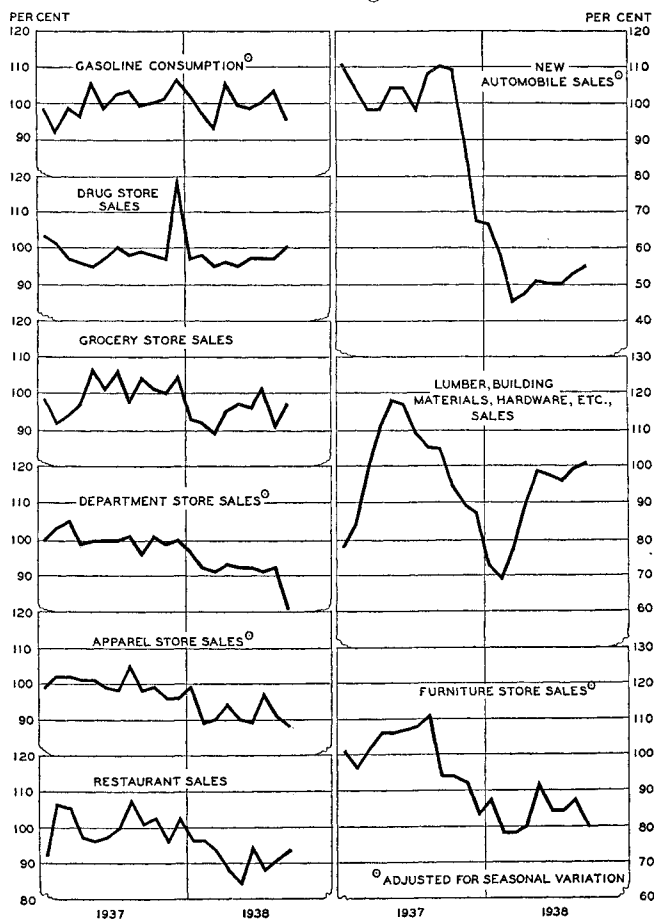
### **RETAIL COMMODITY SALES—JANUARY 1937- SEPTEMBER 1938**

The dollar volume of department store sales in the Twelfth District was unusually stable from January through August of this year, changes having followed closely the customary seasonal pattern. This bank's seasonally adjusted index of the value of department store sales was 90 percent of the 1923-1925 average in February and it remained practically unchanged at that level through August. A sharp decline in the index took place in September. About half of the decline in the district index reflected sharp curtailment in sales of San Francisco department stores owing to strike conditions, and about half reflected decreases in sales of department stores in all other parts of the district. This sharp, district-wide reduction in sales of department stores during September indicates some reduction in consumer buying during that month. It may be attributed to a combination of influences, including, among others, unseasonable weather and labor difficulties.

Department store sales are usually considered to indicate reasonably well short-term changes in retail demand for a wide range of commodities. They do not reflect sales of automobiles or gasoline, however, nor of hardware, lumber, and building materials, nor of food. In order to check the record indicated by department store sales during the past year or so, an examination has been made of several other measures of retail sales which are available at least since January 1937. These include sales of independent stores in numerous lines of trade, as compiled by the Department of Commerce, and also the number of new automobiles sold and the volume of gasoline sold. The data have been expressed as index numbers and, where the records extend for several years, they have been adjusted for seasonal variation. The series are not regarded as showing exact month-to-month changes, but it is believed that they show reasonably well the broad movements in retail sales of commodities since the beginning of 1937. They are presented in the chart on the following page.

One of the principal facts brought out by the indexes shown on the chart is the variance in consumer purchases of different classes of goods since January 1937. In general, during the period of severe business recession beginning in late summer last year, sales of durable goods

having a relatively high unit cost were subject to sharp reduction. This is evident in the substantial decline in consumer purchases of automobiles and furniture and household appliances. Sales of lumber and other commodities used in the construction of residential facilities, including hardware and heating and plumbing equipment, fell drastically after May 1937, when severe contraction in residential building became evident. In some contrast was the movement of what might be called nondurable



RETAIL TRADE—TWELFTH DISTRICT  
Indexes of estimated value of sales, 1937 daily average=100.  
By months, January 1937 to September 1938.

goods. Demand for such commodities as gasoline and drug store merchandise was well maintained, and comparatively small declines were recorded in sales of food, clothing, and merchandise sold by department stores. Since February of this year, no marked change has been evident in the several lines of retail trade for which separate series have been prepared, except in the lumber, building, and hardware group where substantial increases have occurred. (In presenting these figures, no allowance has been made for changes in prices which have generally been lower this year than in the spring of 1937. Measures of gasoline and automobile sales are based upon quantities sold rather than value, but if value measures were available their movements would correspond closely with the volume movements.)

If a satisfactory composite measure of retail sales of all commodities were available, it obviously would show a greater decrease than is recorded by department store sales only. Such a composite would be weighted con-

siderably by sales of automobiles, home furnishings, and building materials, which declined much more sharply from 1937 to 1938 than did sales of less durable consumer goods. In the period reviewed, it would appear that department store sales provided a reasonably good measure of changes in total consumer buying of the so-called "nondurable" goods, but were a less satisfactory measure of retail sales of all commodities. They cannot be used as an indicator of changes in total consumer expenditures, which include purchases of various services, payments for housing, and so on.

#### AGRICULTURE

The outstanding feature of the agricultural situation during the past year and a half has been the substantial reduction in prices paid for farm products, and the accompanying decrease in cash farm income. From May through August of this year considerable stability in prices of farm products was evident following the sharp declines of the preceding year, but quotations have again been tending lower in recent weeks. In mid-October, averages of farm prices in district states ranged from 30 to 40 percent below the high levels reached in the spring of last year. While price declines have been general, quotations for livestock and livestock products have decreased much less than have prices of crops. The sharp recession in farm products prices has been the principal factor in the lower cash farm income received this year, although reduced crop output has been of some consequence. Based on preliminary reports, district cash farm income for 1938, including Government benefit payments, is expected to total around \$850,000,000, compared with \$1,062,000,000 in 1937.

Income received by citrus growers in Arizona and California during the marketing season just completed,

#### Production and Employment—

	Index numbers, 1923-1925 average=100			With Seasonal Adjustment (1938) (1937)			Without Seasonal Adjustment (1938) (1937)		
	Sept.	Aug.	Sept.	Sept.	Aug.	Sept.	Sept.	Aug.	Sept.
<b>Industrial Production*</b>									
Manufactures (physical volume)									
Lumber .....	78	72	87	89	85	98			
Refined oils .....	—	—	—	166	156	177			
Cement .....	99	92	103	105	102	109			
Meat .....	117	120	114	—	—	—			
Wheat flour .....	98	112	114	117	112	136			
Minerals (physical volume)									
Petroleum .....	—	—	—	101	101	104			
Lead (U. S.)† .....	—	—	—	48	44	73			
Construction (value)									
Residential building permits‡									
Twelfth District .....	45	50	31	50	50	34			
Southern California .....	51	56	36	56	55	40			
Northern California .....	39	47	22	43	46	24			
Oregon .....	28	33	19	33	33	23			
Washington .....	25	27	20	27	31	22			
Intermountain states .....	61	52	43	81	59	57			
Public works contracts .....	—	—	—	254	332	158			
Miscellaneous									
Electric power production .....	200	196	208	210	215	218			
<b>Factory Employment and Payrolls§</b>									
Employment									
Pacific Coast .....	93	91	109	98	95	113			
California .....	102	102	120	106	105	125			
Oregon .....	82	77	94	88	82	101			
Washington .....	81	77	91	84	79	95			
Payrolls									
Pacific Coast .....	91	89	106	93	92	109			
California .....	100	98	116	101	101	117			
Oregon .....	86	82	99	92	88	107			
Washington .....	72	75	87	76	76	91			

\*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.

according to preliminary estimates, was approximately 17 percent below returns in the 1936-1937 season. This reduction in income was the result entirely of sharply lower prices. With a crop of near record size, out-of-state shipments were 50 percent larger than in the preceding year. Prices, however, averaged about 40 percent lower than in the 1936-1937 season, reflecting the heavy shipments of oranges as well as large supplies of competing fruits and some reduction in consumer buying power.

Deciduous fruit growers, on the whole, have had a relatively unfavorable year for the season to date. The pear crop was of record proportions, but production of all other deciduous fruits was smaller than a year ago. Despite this fact, prices paid growers have been lower than in the 1937 season for all fruits except apples. These declines in prices at a time of reduced output have reflected to a considerable extent the large carryover of canned fruits into the 1938 season and the reduction in canned fruit prices from a year ago. Consumption of 1938 fruit by canneries was consequently curtailed and fruit was accepted only at prices substantially lower than in 1937. The heavy carryover of canned fruits resulted, to some extent, from the large supply of citrus fruits during the past year, which offered severe price competition to canned fruits. While income to deciduous fruit growers throughout the district has been substantially lower this season than last, more serious curtailment would have resulted had there been no aid from state and Federal agencies. Those agencies have made loans to growers on a number of crops and have purchased supplies for distribution to relief recipients.

Grape growers in California received over \$40,000,000 from their 1937 crop. Considerable difficulty has been encountered in moving the 1938 crop (the fourth largest crop on record) into the various commercial channels. Out-of-state shipments of fresh grapes for table use and the home manufacture of wines have been 25 percent smaller than for the season through mid-October in 1937, and total returns have been about 30 percent lower. As a result, a wine grape prorated program to divert part of the

crop into non-competitive uses in an attempt to give growers a higher return for grapes has been adopted.

About 18 percent of the total United States rice crop is produced in central and northern California. Growers received about \$5,300,000 from the 1937 crop. At the beginning of the current marketing season (October 1, 1938) the total carryover of 1937 crop rice was placed at 754,000 bags, compared with 431,000 bags a year ago. By adding to this carryover the figures of estimated 1938 production, a total of 5,006,000 bags is obtained as the prospective current supply, the largest quantity since records became available. This total compares with a supply of 4,998,000 bags for the 1937-1938 season. Utilization of rough rice during the 1937-1938 crop year ended September 30 totaled 3,271,000 bags. Reflecting these conditions, prices paid growers for rice were adjusted downward from \$1.51½ per hundred pounds to \$1.23½ early in October. In October 1937, growers were receiving \$1.35 per hundred pounds for their rough rice.

### CREDIT AND BANKING

At the time of the Treasury's quarterly financing program in mid-September earning assets of city banks increased considerably as a result of additions made to investments in United States Government securities. In the succeeding four weeks, ending October 19, total earning assets of the banks did not change much. Investments declined somewhat, reflecting a reduction in holdings of Government obligations, while loans increased slightly further. Demand for credit for industrial, commercial, and agricultural purposes continued the expansion first evident in mid-August following a decline extending over the preceding eight months. Loans secured by real estate likewise increased further and in mid-October were 3 percent higher than a year earlier.

While total earning assets of city banks were practically unchanged in the four weeks ending October 19, adjusted demand deposits increased further. These deposits have expanded materially since last May, regaining more than half the decline which took place between January 1937 and the spring of 1938.

### Distribution and Trade—

	Index numbers, 1923-1925 average=100			With Seasonal Adjustment			Without Seasonal Adjustment		
	(1938—1937)			(1938—1937)			(1938—1937)		
	Sept.	Aug.	Sept.	Sept.	Aug.	Sept.	Sept.	Aug.	Sept.
<b>Retail Trade</b>									
Department store sales (value)*									
Twelfth District.....	79	90	94	82	86	97			
California.....	81	95	99	83	94	101			
Los Angeles.....	83	90	92	86	90	96			
Bay Region.....	72	100	105	73	98	106			
San Francisco.....	59	100	102	61	96	104			
Oakland.....	103	101	114	100	107	110			
Pacific Northwest.....	68	72	74	76	65	83			
Seattle.....	79	83	83	86	75	90			
Salt Lake City.....	76	78	82	78	62	84			
Department store stocks (value)†	65	65	74	66	63	74			
Furniture store sales (value)*‡	70	76	82	74	78	87			
Furniture store stocks (value)†‡	68	67	80	67	65	79			
Automobile sales (number)*									
Total.....	—	—	—	59	69	119			
Passenger.....	—	—	—	56	61	107			
Commercial.....	—	—	—	124	148	249			
<b>Carloadings (number)*</b>									
Total.....	79	78	90	93	91	105			
Merchandise and misc.....	88	86	104	106	101	125			
Other.....	68	68	76	78	79	85			
<b>Intercoastal Traffic (volume)</b>									
Total.....	55	55	65	57	58	66			
Eastbound.....	47	45	56	49	48	58			
Westbound.....	82	89	93	83	91	94			

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

### EARNING ASSETS—TWELFTH DISTRICT MEMBER BANKS

	(in thousands of dollars)	Change since	
		June 30, '38	Dec. 31, '37
Total loans.....	Sept. 28, '38	1,848,103	+29,107
Open market paper.....	33,868	—5,094	—22,757
Loans on securities			
to brokers and dealers.....	10,987	—2,362	—5,919
Loans on securities to others.....	237,219	+2,783	—11,523
Loans on real estate			
On farm land.....	95,902	—91	+213
On other real estate.....	690,311	+25,584	+55,779
Loans to banks.....	1,813	+5	—187
Other loans.....	778,003	+8,282	—43,140
Total investments.....	1,809,068	+10,148	+40,012
U. S. direct obligations.....	1,097,224	+23,093	+40,921
U. S. guaranteed obligations.....	201,057	—27,673	—13,080
Other obligations.....	510,787	+14,728	+12,171

Figures from reports of condition, submitted by all member banks as of September 28, indicate that loans of member banks in the Twelfth District increased considerably in the three months preceding that date. Much of the increase took place in loans on urban real estate, and a large part of it was reported by banks and branches located outside the seven large cities included in the weekly reporting member bank series. "Other loans", which include advances for commercial and agricultural purposes and personal instalment loans, also increased.

## Summary of National Business Conditions

Prepared by the Board of Governors of the Federal Reserve System

**I**n September, industrial production and employment continued to advance, and there was also an increase in the volume of retail trade. Building activity continued at the increased level reached in August, reflecting a large volume of awards for publicly-financed projects.

### PRODUCTION

Volume of industrial production increased further in September and the Board's seasonally adjusted index advanced to 90 percent of the 1923-1925 average as compared with 88 percent in August. There was a substantial rise in pig iron production and output of steel ingots continued to increase, averaging 45 percent of capacity. In the first three weeks of October, activity at steel mills showed a further increase and was at a rate of about 50 percent of capacity. Plate glass production continued to advance rapidly in September. Output of lumber and cement was maintained, although at this season activity in these industries usually declines. Automobile production in September remained at about the same low rate as in August. In October, however, output increased rapidly as most manufacturers began the assembly of new model cars. In the nondurable goods industries there were substantial increases in activity at meat-packing establishments, sugar refineries, and tire factories. Output of shoes declined somewhat. Textile production, which had been rising sharply since spring, showed little change in September, although an increase is usual. Activity increased further at silk mills, but at woolen mills there was a decline, and at cotton mills output did not show the usual seasonal rise.

At mines, coal production increased considerably in September and there was also an increase in output of copper. Crude petroleum output declined as wells in Texas were shut down on both Saturdays and Sundays, whereas in August only Sunday shutdowns had been in effect.

Value of construction contracts awarded, which had increased considerably in August, showed little change in September, according to figures of the F. W. Dodge Corporation. Awards for private residential building continued at the advanced level prevailing since early summer and contracts for public residential projects were also maintained following a rise in the previous month. Other public projects continued in substantial volume.

### EMPLOYMENT

Employment and payrolls increased further between the middle of August and the middle of September, reflecting principally increases at manufacturing concerns. Employment rose sharply at automobile factories and increased moderately in other durable goods industries. At factories producing nondurable goods there was slightly more than the usual seasonal rise in the number employed.

### DISTRIBUTION

Distribution of commodities to consumers showed a more than seasonal rise in September. There were increases in sales at department and variety stores and mail order sales also increased. Department store sales for the first three weeks of October showed somewhat less than the usual seasonal rise.

Freight-car loadings continued to increase in September and the first half of October, reflecting chiefly a further rise in shipments of coal and miscellaneous freight.

### COMMODITY PRICES

Prices of a number of industrial raw materials, particularly hides and copper, advanced from the middle of September to the third week of October. Crude oil and gasoline prices, on the other hand, were reduced. Livestock and meat prices showed large seasonal declines in this period. In the first half of October there were sales of many finished steel products at prices below those announced for the fourth quarter, but in the third week of the month it was reported that prices had been restored to former levels.

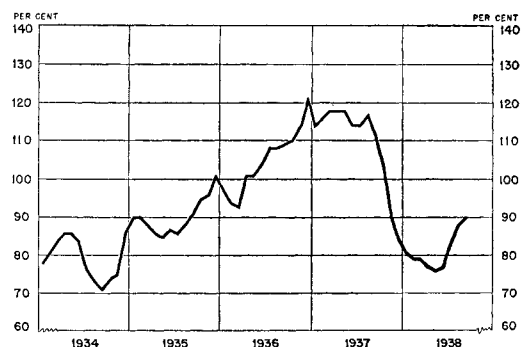
### BANK CREDIT

During the four weeks ended October 19 there were further substantial increases in the gold stock of this country. As a result largely of these gold acquisitions and of net expenditures by the Treasury from its deposits with the Reserve banks, excess reserves of member banks increased to a total of \$3,270,000,000 on October 19.

Demand deposits at reporting member banks in 101 leading cities were also increased by the inward gold movement and on October 19 amounted to \$15,750,000,000, the largest volume ever reported by these banks. Following substantial increases during September, reflecting purchases of new issues of United States Government obligations, total loans and investments at reporting banks showed little change during October.

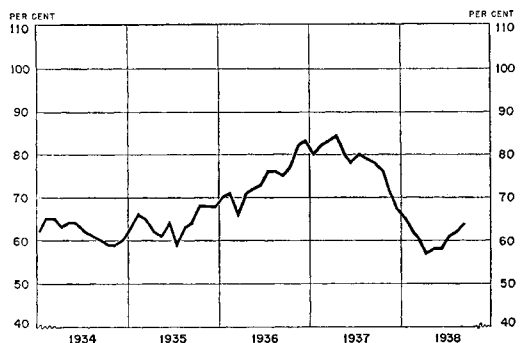
### MONEY RATES AND BOND YIELDS

The average yield on long-term Treasury bonds declined from 2.48 percent on September 27 to 2.28 on October 21. Yields on Treasury notes and Treasury bills also declined in that period.



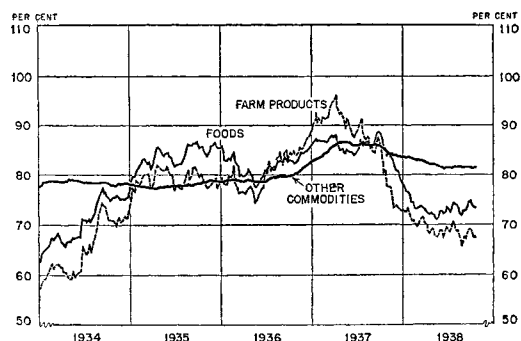
### INDUSTRIAL PRODUCTION

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



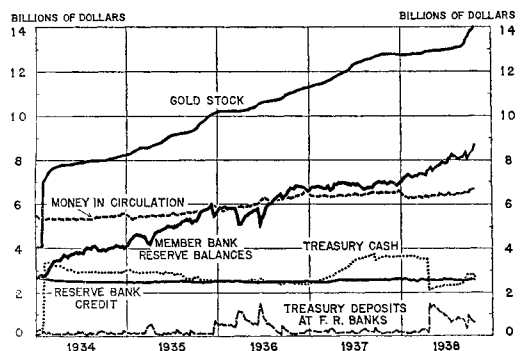
### FREIGHT-CAR LOADINGS

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



### WHOLESALE PRICES

Indexes compiled by the United States Bureau of Labor Statistics, 1926=100. By weeks, 1934 to week ending October 15, 1938.



MEMBER BANK RESERVES AND RELATED ITEMS  
Wednesday figures, January 3, 1934 to October 19, 1938.