

MONTHLY REVIEW

BUSINESS CONDITIONS IN THE TWELFTH FEDERAL RESERVE DISTRICT

Federal Reserve Bank of San Francisco

December 1, 1938

OUTPUT of Twelfth District industries in October remained at about the level of September but factory employment and payrolls declined somewhat, after allowance for seasonal influences. Residential building became more active, the value of new projects initiated during October increasing from the September total, although some reduction is customary at this time of year. Railway freight business increased by the full seasonal amount during October. In the field of retail trade, department, apparel, and furniture store sales increased considerably and there was an expansion in sales of new passenger automobiles. Further expansion during November is indicated by available data.

INDUSTRY AND TRADE

Industrial output of the Twelfth District has increased considerably since last June. Much of the expansion has come in the important lumber industry and in other industries which produce building materials or home furnishings. Expansion in output, employment, and payrolls of these industries has corresponded with or followed a rise in home building to a comparatively high level. Data on output of many industries which are not closely related to home building are not available, but on the basis of such information as is reported, it appears that aggregate output of those industries has risen but little since last June. Some individual industries have shown definite expansion, including copper mining, steel production, pulp production, and, recently, automobile assembly.

After increasing on a seasonally adjusted basis by more than 40 percent since last winter, output of lumber in October and November remained at about the September level. In several recent months, mills have shipped more lumber than they have sold, thus cutting down the volume of their unfilled orders. At the end of October, unfilled orders amounted to 467,000,000 board feet, compared with 695,000,000 three months earlier. Preliminary data for November indicate, however, that there was considerable expansion in orders received by lumber mills during that month.

The value of residential building permits in the Twelfth District was larger in October than in September, whereas a decline usually takes place. In southern California, residential building was greater in October than in any month in recent years. As indicated in the table of indexes of production and employment on the following page, increases in building after allowance for seasonal factors were recorded in all regions for which indexes have been computed, with the exception of Oregon. Preliminary data for November indicate that about the usual seasonal decline in value of building permits took place during that month, and the seasonally adjusted index is expected to be close to 50 percent of the 1923-1925 average—the same as in July, August, and October.

Available data indicate gains in retail trade during October. Despite a continuation of strike conditions in San

Francisco throughout the month, the seasonally adjusted index of department store sales in the Twelfth District advanced to within two points of the pre-strike level. Increases in department store trade over the September level were reported from practically all parts of the district, and in addition widespread increases in sales of apparel and furniture stores took place. Further gains during November are indicated by weekly data, particularly in San Francisco where the strike terminated early in the month.

Registrations of new passenger automobiles declined less than seasonally in August and September, and turned upward moderately in October, when a further decline usually takes place. In that month, the number of new cars sold was larger than in any month since November last year, on a seasonally adjusted basis. Sales of new commercial cars, on the other hand, declined considerably in September and October.

THE AIRCRAFT INDUSTRY

Manufacture of aircraft has expanded sharply in the Twelfth District during the past few years, and more than half the national output of planes (by value) is now produced on the Pacific Coast. This comparatively young industry has experienced a vigorous growth nationally, and with climatic conditions in southern California particularly suited to its requirements expansion in that area has been especially marked. Some of the growth in this district resulted from expansion of companies long established here, and some from removal of plants from other regions. All but one of the local plants manufacturing planes is located in southern California. In alphabetical order, the seven leading district concerns are

Boeing Airplane Co., Seattle, Wash.
Consolidated Aircraft Corp., San Diego, Calif.
Douglas Aircraft Co., Inc. (Northrop Division),
El Segundo, Calif.
Douglas Aircraft Co., Inc., Santa Monica, Calif.
Lockheed Aircraft Corp., Burbank, Calif.
North American Aviation, Inc., Inglewood, Calif.
Vultee Division of Aviation Manufacturing Corp.,
Downey, Calif.

Several important manufacturers of aircraft parts and accessories are also located in this district. Planes produced on the Pacific Coast are powered almost entirely, however, by engines manufactured in the East, and a considerable volume of other parts and accessories is obtained from outside the Twelfth District.

Some measure of the significance of the aircraft industry in the economic fabric of the district is indicated by the fact that it currently employs more than 11,500 wage earners. This is a relatively small portion of total factory workers employed in Twelfth District manufacturing, estimated at about 400,000 in 1935, but probably not more than a dozen district manufacturing industries give direct employment to so many wage earners.

The present total of something more than 11,500 wage earners employed in the district aircraft industry is considerably below the level of employment during 1937. Last year's high total was reached after marked expansion in production of aircraft for several years, especially in 1936 and 1937. Much of the increased activity represented production of large numbers of transport planes for airlines which were adding to facilities or reequipping with new model planes. A substantial amount of military business was also obtained during that period. Development work, as well as actual production, required a large number of workers during that period.

The considerable decline in number of wage earners and in payrolls since early in 1938 (estimated at from 10 to perhaps as much as 20 percent) would ordinarily be taken as a surface indication of decreased "productive activity" of the aircraft manufacturers. From such information as has been obtained from producers, however, it appears that this has not been the case and that, in fact, manufacturing activity is now close to the peak levels attained in 1937. The explanation of this maintenance of "output" despite a reduction in employment and payrolls is that productive efficiency has been increased. Extensive additions and improvements were made to plant facilities in 1936 and 1937, and have contributed to this greater operating efficiency. The most important influence reducing the number of workers, however, has come from the concentration of production upon relatively few types of planes during the past two years. Consequently, cumulative experience and a closer approximation to conditions of mass production have enabled the industry to reduce the number of man hours required to produce a given type of plane.

At present, aircraft plants in the district are engaged in filling large orders for military craft for both the United States and foreign governments. Production of commercial transport planes for domestic and foreign airlines is also of some current importance, but military orders are responsible for the bulk of present activity. Military orders from abroad placed with large companies included two from the British Government in June for a total of 400 planes, and one from the Australian Government in November for 50 planes.

Despite the sustained high level of operations, aircraft plants in the district continue to hold a large volume of unfilled orders.* These present orders are probably sufficient to maintain production at current levels for upwards of a year. Rate of production of the industry is not as high as would be possible, however, if greater output should become desirable. Some plants are on a single eight-hour day shift basis but are not operating in all cases at full capacity on that shift. Other plants are operating an additional eight-hour shift. Full operation of all plants on a 24-hour basis would permit a large increase in output without extension of plant, especially if production should continue to be concentrated on types currently being produced.

*Care must be exercised in interpreting figures published for the industry showing the value of output and of orders. Reports on the value of orders for and output of planes for export, whether of commercial or military type, and for domestic private or commercial use, include the value of the power plant (engine, propellers, and accessories). In the case of planes for the United States Government, however, value figures do not include the power plant which in some instances nearly equals the value of the plane itself.

AGRICULTURE

Harvesting and marketing of crops reaches a seasonal peak during October in the Twelfth District, as in many parts of the United States. The peak is less marked in this district, however, because of wide diversification of crops which mature and are marketed in every month of the year. In this respect the Twelfth District differs from some regions where a few crops of dominant importance are harvested during a short period, as cotton, tobacco, and peanuts in the South, corn in the mid-West, and wheat and potatoes in several northern States. The difference between the seasonal agricultural activity in the Twelfth District and other parts of the United States is mainly one of degree, however, and here as in most sections a review of annual crop income is appropriate after the results from fall harvests are fairly well known.

District farm income during the first ten months of 1938, which includes the seasonally heavy marketings of late summer and early fall, was about 20 percent lower than in the comparable period of 1937. This decline is considerably greater than in the United States as a whole, where receipts were down about 13 percent. The smaller percentage decline for the entire United States is partly explained by the fact that receipts from the sale of livestock and livestock products, which held up much better in 1938 than receipts from crops, account for a greater proportion of total farm income nationally than in the district. While large areas in the far west are classified as range land and are used extensively for grazing livestock, income from this branch of agriculture has accounted for only 45 percent of total farm income in recent years. For the entire United States, income from marketings of livestock and related products has been the source of over 54 percent of total agricultural income, largely reflecting the importance of hogs and dairy products in the mid-West.

Production and Employment—

	Index numbers, 1923-1925 average=100			With Seasonal Adjustment			Without Seasonal Adjustment		
	1938		1937	1938		1937	1938		1937
	Oct.	Sept.	Oct.	Oct.	Sept.	Oct.	Oct.	Sept.	Oct.
Industrial Production*									
Manufactures (physical volume)									
Lumber	79	78	77	85	89	82	166	166	178
Refined oils	—	—	—	—	—	—	103	105	116
Cement	90	99	101	—	—	—	—	—	—
Meat	116	117	113	—	—	—	—	—	—
Wheat flour	96	98	108	114	117	129	—	—	—
Minerals (physical volume)									
Petroleum	—	—	—	100	101	105	—	—	—
Lead (U. S.)†	50	50	81	52	48	84	—	—	—
Construction (value)									
Residential Building Permits‡									
Twelfth District	50	45	29	51	50	30	—	—	—
Southern California	57	51	33	60	56	35	—	—	—
Northern California	41	39	23	40	43	22	—	—	—
Oregon	22	25	17	22	31	17	—	—	—
Washington	39	27	23	33	29	19	—	—	—
Intermountain states	82	66	59	83	87	59	—	—	—
Public works contracts	—	—	—	279	254	101	—	—	—
Miscellaneous									
Electric power production	200	200	201	199	209	200	—	—	—
Factory Employment and Payrolls‡									
Employment									
Pacific Coast	90	92	107	95	96	112	—	—	—
California	101	102	120	106	106	126	—	—	—
Oregon	74p	79	91	78p	84	96	—	—	—
Washington	77p	78	86	80p	81	91	—	—	—
Payrolls									
Pacific Coast	88	90	105	92	92	109	—	—	—
California	99	100	118	102	101	121	—	—	—
Oregon	77p	82	95	82p	89	101	—	—	—
Washington	71p	70	81	76p	74	86	—	—	—

*Daily average. p Preliminary.

†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.

The sharp reduction in district farm income in the first ten months of 1938 reflects a decline of 30 percent in income from crop sales. This decline was mainly a result of lower prices, although there was also some reduction in volume of marketings. Receipts from sales of livestock and livestock products declined about 10 percent.

A significant proportion of total district farm cash income from livestock and livestock products is derived from the sale of poultry and eggs. In 1937, these items returned local producers almost \$75,000,000, which represented approximately 6 percent of aggregate cash receipts from all crops and livestock. In that year, poultry and eggs constituted the fourth ranking source of agricultural income in the district, exceeded only by milk, cattle and calves, and wheat in the order named. The poultry industry is widely distributed throughout the district, but several areas are predominantly important. These include the North San Francisco Bay Counties and Los Angeles County in California, the Willamette Valley in Oregon, and the Puget Sound section in Washington. Of total district income from the sale of poultry and eggs in recent years, approximately 60 percent was received by producers in California and 20 percent in Washington.

Cash receipts of district producers from poultry and eggs in 1938 are expected to be somewhat smaller than in 1937. Egg production has been lower than last year, and although prices have been comparatively high in recent months total receipts from egg sales have been but little larger than in 1937. Prices of poultry have been generally lower than in 1937, and a decrease in income has taken place. Despite the decline in gross receipts of poultry producers, it is estimated that net income will be almost as large as in 1937 because of the material decrease in production costs, particularly of feeds.

CREDIT AND BANKING

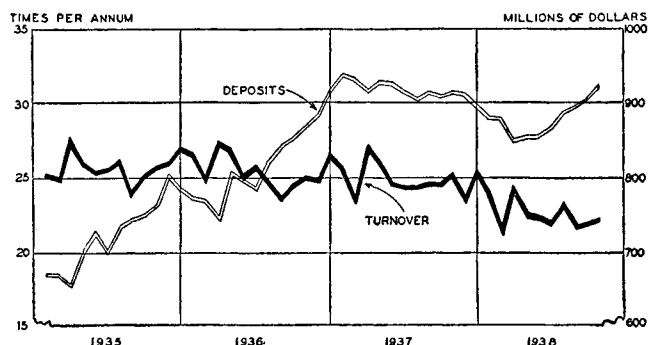
Total loans of Twelfth District city banks declined in the five weeks ending November 23, the reduction offsetting about half the expansion which had taken place in the preceding two months. Much of the decline occurred

in loans for commercial, industrial, and agricultural purposes. These loans had increased moderately from mid-August through early November, and despite the reduction in recent weeks remain somewhat larger than in the late summer. Real estate loans, on the other hand, increased further, continuing the slight but persistent expansion evident since last March.

Investments of city banks increased during the recent five-week period. Decreased holdings of Federal Government obligations were more than offset by larger holdings of other securities. Investments in non-Government securities were higher in mid-November than at any time since March 1937.

While total earning assets of city banks declined in the five weeks ending November 23, adjusted demand deposits increased further. As shown in the accompanying chart, demand deposits have expanded considerably since last May, regaining almost the entire decline which took place between January 1937 and the spring of 1938.

This recent increase in adjusted demand deposits has been accompanied by a decline in their rate of turnover, in other words, in the average utilization of these deposits in making payments. The rate of turnover is computed by dividing the average volume of demand deposits during a given period into the amount of checks drawn against demand deposits during the same period. For purposes of comparison, the turnover ratio for each month has been converted to an annual rate and plotted upon the chart with the deposits series.



DEMAND DEPOSITS AND ANNUAL RATE OF TURNOVER
Twelfth District City Banks

Distribution and Trade—

Index numbers, 1923-1925 average=100	With Seasonal Adjustment (1938-1937)			Without Seasonal Adjustment (1938-1937)		
	Oct.	Sept.	Oct.	Oct.	Sept.	Oct.
Retail Trade						
Department store sales (value)*						
Twelfth District.....	88	79	98	91	82	101
California.....	91	81	104	92	83	105
Los Angeles.....	95	83	99	97	86	101
Bay Region.....	80	72	107	80	73	107
San Francisco.....	64	59	104	63	61	103
Oakland.....	115	103	118	117	100	121
Pacific Northwest.....	72	68	74	81	76	84
Seattle.....	80	79	82	84	86	86
Salt Lake City.....	88	76	86	95	78	92
Department store stocks (value)†	62	65	72	68	66	79
Furniture store sales (value)*‡	77	70	82	80	74	85
Furniture store stocks (value)‡‡	67	68	81	69	67	83
Automobile sales (number)*						
Total.....	—	—	—	65	59	106
Passenger.....	—	—	—	63	56	98
Commercial.....	—	—	—	93	124	188
Carloadings (number)*						
Total.....	79	79	85	97	93	103
Merchandise and misc.....	86	88	94	112	106	121
Other.....	70	68	71	79	77	80
Intercoastal Traffic (volume)						
Total.....	60	55	68	66	57	73
Eastbound.....	49	47	55	56	49	62
Westbound.....	95	82	106	99	83	111

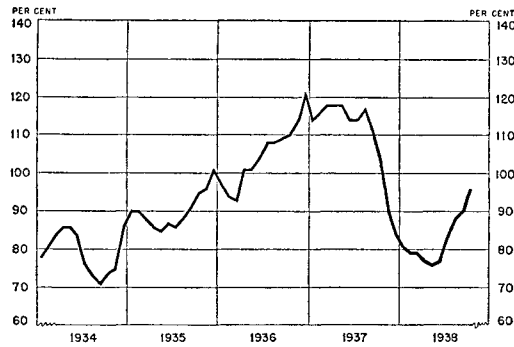
*Daily average. †At end of month. ‡1929 average = 100.

Both deposits and debits have increased since last May, but the rise in deposits has been more rapid and the rate of turnover has declined further. In October and November of this year deposits turned at a rate of about 22 times per annum, compared with an average of 25 during 1937.

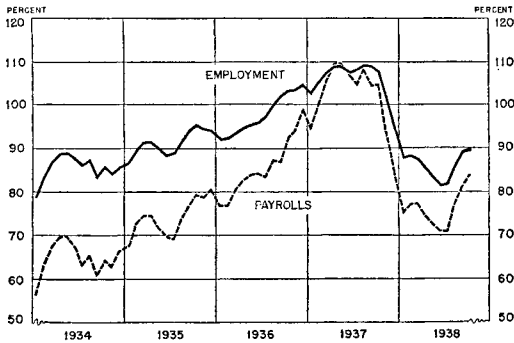
While directly comparable figures are not available prior to the fall of 1934, estimates indicate that the rate of turnover of demand deposits in district cities in the past four years has averaged about 40 percent lower than in the several years immediately prior to 1930. This decline in rate of turnover reflects the fact that the amount of check payments has been much lower during recent years, owing to a reduced volume of business at a lower general level of prices. Along with the lower volume of check payments, deposits have increased to record high levels, and the ratio of debits to deposits has thus been sharply reduced. A considerable proportion of the increased demand deposits of individuals, firms, and corporations are relatively inactive.

Summary of National Business Conditions

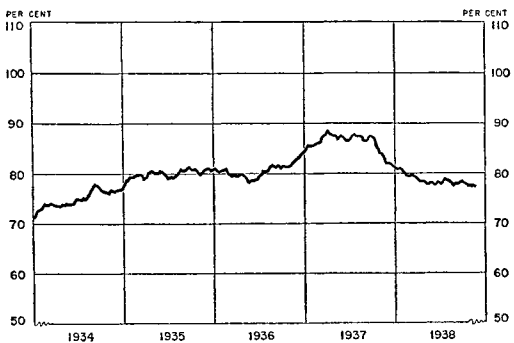
Prepared by the Board of Governors of the Federal Reserve System



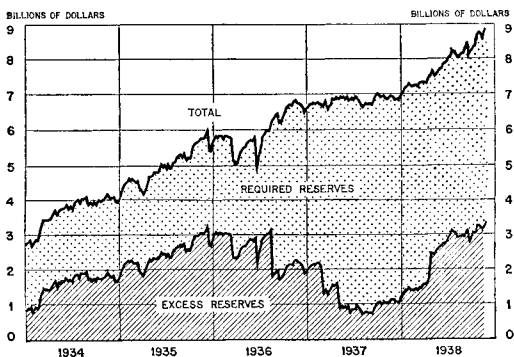
INDUSTRIAL PRODUCTION
Index of physical volume of production, adjusted for seasonal variation, 1923-1925 average=100. By months, January 1934 to October 1938.



FACTORY EMPLOYMENT AND PAY ROLLS
Indexes of number employed and pay rolls, without adjustment for seasonal variation, 1923-1925 average=100. By months, January 1934 to October 1938. Indexes compiled by the United States Bureau of Labor Statistics.



WHOLESALE PRICES
Index compiled by the United States Bureau of Labor Statistics, 1926=100. By weeks, 1934 to week ending November 19, 1938.



MEMBER BANK RESERVES
Wednesday figures of total member bank reserve balances at Federal Reserve banks, with estimates of required and excess reserves, January 3, 1934 to November 23, 1938.

INDUSTRIAL production continued to increase sharply in October and the first three weeks of November, reflecting principally larger output of steel and automobiles. Wholesale commodity prices showed little change in this period. Volume of employment and national income increased in October.

PRODUCTION

In October the Board's seasonally adjusted index of industrial production was at 96 percent of the 1923-1925 average, as compared with 90 percent in September. Steel ingot production increased considerably, averaging 53 percent of capacity in October, and in the first three weeks of November there was a further substantial advance. In the automobile industry, output was increased rapidly during October and the first three weeks of November, both to stock dealers with new model cars and to meet the increased volume of retail demand accompanying the introduction of new models. Production, which in the first nine months of 1938 had been at a considerably lower level, was at nearly the same rate as in the corresponding period in other recent years. Output of plate glass also increased sharply further in October. Cement production showed a considerable increase, while lumber production declined slightly.

Activity at textile mills, which had risen sharply during the summer, continued at about the August and September rate, although usually there is an increase at this time of the year. Shoe production declined somewhat further in October, and there was a decrease in output of tobacco products, while in most other industries manufacturing nondurable goods changes in output were largely seasonal in character. Mineral production showed a further moderate rise, reflecting in large part increased output of crude petroleum and nonferrous metals. Lake shipments of iron ore also were in larger volume, although a decrease is usual in October. Coal production increased seasonally.

Value of construction contracts awarded in 37 eastern states increased considerably in October, according to figures of the F. W. Dodge Corporation, reflecting chiefly a sharp rise in awards for public projects. Contracts for hospital, educational, and other public buildings included in the Public Works Administration program were in large volume, and there was a further increase in contracts awarded for slum clearance projects of the United States Housing Authority.

EMPLOYMENT

Employment and payrolls increased somewhat further between the middle of September and the middle of October. At automobile factories, employment continued to rise sharply and there were further moderate increases in most other durable goods industries. The number employed at canning establishments declined and in other nondurable goods industries showed little change. Employment increased somewhat at mines, on the railroads, and in the construction industry, while in trade the rise was less than seasonal.

DISTRIBUTION

Sales at department and variety stores and by mail order houses showed less than the usual seasonal increase in October, partly because consumer buying of winter merchandise was retarded by unseasonably warm weather during most of the month. In the first two weeks of November department store sales increased moderately.

Freight-car loadings rose considerably further in October, owing largely to increased shipments of grains, coal, and miscellaneous freight. In the first half of November, loadings showed a seasonal decline.

COMMODITY PRICES

Wholesale commodity prices generally showed little change from the middle of October to the third week of November. Prices of steel scrap and leather advanced. Tin plate prices, on the other hand, were reduced, and there were also decreases in zinc, hides, and rubber. Prices of farm products and foods showed small fluctuations in this period.

BANK CREDIT

Total loans and investments at reporting member banks in 101 leading cities declined by about \$150,000,000 during the first half of November following a substantial increase during October. The decline in November was almost entirely at New York City banks and reflected the retirement of state and local government obligations held by these banks. Adjusted demand deposits, which reached an all-time peak of \$16,000,000,000 at reporting banks in the last week in October, also decreased somewhat in the first half of November. Member bank reserves in the middle of November were at about the high level reached a month earlier.

MONEY RATES AND BOND YIELDS

The prevailing rate on open-market commercial paper declined slightly in November to 5/8 of 1 percent, a new low level. Other short-term open-market rates were unchanged. Yields on United States Government securities and on high-grade corporate bonds showed only small changes during November, continuing close to the low levels reached in October.