

MONTHLY REVIEW

BUSINESS CONDITIONS IN THE TWELFTH FEDERAL RESERVE DISTRICT

Federal Reserve Bank of San Francisco

March 1, 1939

INDUSTRIAL production in the Twelfth Federal Reserve District during January remained at about the December level after allowance for seasonal influences. Further expansion in output of industries producing building materials and household furnishings approximately offset decreases in some other lines. Factory employment in Pacific Coast states was likewise well maintained and payrolls advanced further, allowing for the customary seasonal declines at this time of year. Following a sharp increase in December, railroad freight traffic declined moderately in January. Available information on retail trade indicates about the usual large seasonal decrease from December levels.

Residential building, which was an important factor stimulating recovery in local production and trade during the second half of 1938, advanced sharply in January, although some decline is usual in that month. As a result, the seasonally adjusted index of permits rose to 62 percent of the 1923-1925 average from 52 in December. In 1929, the index averaged 51. Substantial gains in value of residential permits were general throughout the district. Some part of the marked rise resulted from initial permits, amounting to \$349,200, taken in connection with the large Wyvernwood rental project in East Los Angeles on which work was started during the month. That \$349,200 represented about 2 percent of the value of all January residential building permits included in this bank's index, which covers 197 cities and the unincorporated area of Los Angeles County.

Permits issued for private nonresidential construction decreased in January, and continued to have an aggregate value considerably smaller than those issued for residential building. The value of new public works initiated was considerably larger in January than in December, owing partly to awards of contracts totaling \$8,000,000 for the construction of a pontoon bridge over Lake Washington in Seattle.

Stimulated by a volume of unfilled orders accumulated during the last quarter of 1938, output of lumber expanded further in January and was 53 percent higher than in January of last year. The adjusted index advanced to 89 from 81 in December. Expansion in district mill activity has been almost continuous since early in 1938 and has largely reflected demand from the residential building industry. New business received by district mills was considerably lower in January than in December, and preliminary data covering the first 18 days of February indicate a further reduction in that month. Gross stocks of lumber reported by mills at the end of January were seasonally lower than a month earlier and were 6 percent lower than on January 31, 1938 when the volume of orders being received was much smaller than at present.

Voluntary efforts of petroleum producers to curtail output of crude in order to prevent further additions to already excessive stocks resulted in a decline in daily average production from 646,000 barrels in December

to 622,000 barrels in January. Practically no change in output took place in the first 25 days of February. Refinery activity remained at about the December level.

Available information indicates that in most other important lines, including aircraft manufacture, automobile assembly, and meat packing, changes in output during January were negligible. Production of rubber tires and flour, on the other hand, expanded somewhat. Orders received by district furniture plants are reported to have increased appreciably in January, partly reflecting an active retail demand accounted for to a considerable extent by the increased occupancy of new houses. In mid-February, settlement of a two months' strike at a large furniture plant in the Pacific Northwest opened the way for a substantial increase in furniture production.

AGRICULTURE

Farm cash income in this district was moderately larger in January 1939 than in January 1938. Prices of meat animals were somewhat higher than a year ago, while most other livestock products and crops are selling at lower levels than in January 1938. Widespread storms in February added to snowpacks and improved irrigation water prospects for the coming season, but additional moisture is needed currently in much of the district.

Livestock on farms and ranges at the beginning of the year is significant as one factor bearing upon the outlook for market supplies of meat animals and animal products during the coming season. As shown in the table, the numbers of milk cows and sheep on district farms and ranges on January 1, 1939 were about as large as a year earlier, while numbers of beef cattle and hogs declined. Principally because of the lower prices at which all animals except beef cattle were appraised, the inventory value of district livestock was considerably lower than on January 1, 1938.

NUMBER AND VALUE OF LIVESTOCK ON RANGES AND FARMS
AS OF JANUARY 1, 1939—TWELFTH DISTRICT
(in thousands)

	Number			Farm Value		
	1937	1938	1939	1937	1938	1939
Beef cattle	4,953	4,840	4,725	\$151,926	\$152,416	\$150,507
Chickens	32,962	30,873	28,751	25,705	23,728	23,729
Dairy cows.....	1,614	1,617	1,628	100,869	101,726	92,621
Hogs	1,613	1,710	1,667	20,144	18,561	17,507
Sheep and lambs..	13,689	12,790	12,772	92,518	87,194	79,532

The current crop of navel (winter) oranges in California has been exceeded only by the record 1934-1935 crop, and output of Valencia (summer) oranges is expected to establish a new record of 29,230,000 boxes. Total production of the two varieties in the 1938-1939 crop year will probably approximate 48,070,000 boxes. If realized, a crop of this size would be 4 percent larger than in the preceding year and 48 percent above annual average output during the ten years 1927-1936. New acreage coming into bearing in Arizona grapefruit orchards and

Distribution and Trade—

BANKING AND CREDIT

Index numbers, 1923-1925 average=100	With Seasonal Adjustment— 1939 (1938)			Without Seasonal Adjustment— 1939 (1938)		
	Jan.	Dec.	Jan.	Jan.	Dec.	Jan.
	Retail Trade					
Department store sales (value)*						
Twelfth District	93	95	94	77	162	77
California	99	101	99	83	172	83
Los Angeles	93	93	91	79	153	78
Bay Region	105	107	107	86	188	88
San Francisco	102	102	104	85	177	87
Oakland	113	123	114	88	224	89
Pacific Northwest	74	75	73	56	129	55
Seattle	84	85	80	64	152	61
Salt Lake City	69	81	73	52	155	55
Department store stocks (value)†.	66	65	68	60	60	62
Furniture store sales (value)*‡...	80	71	76	66	102	63
Furniture store stocks (value)†‡..	67	66	77	63	65	72
Automobile sales (number)*						
Total	—	—	—	..	113	66
Passenger	—	—	—	..	112	60
Commercial	—	—	—	..	124	122
Carloadings (number)*						
Total	88	95	82	70	76	64
Merchandise and misc.	96	105	95	80	85	79
Other	80	81	65	58	64	47
Intercoastal Traffic (volume)						
Total	59	62	52	59	58	51
Eastbound	51	50	43	53	47	45
Westbound	87	105	80	78	99	72

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

in California lemon groves and heavier yields per tree as an increasing number of trees attain maximum bearing age is resulting this year in record output of these fruits in the district. The grapefruit crop is 123 percent and the lemon crop is 50 percent larger than average production in the ten years 1927-1936. These substantial gains in output of this region have been exceeded, however, by increases in other producing areas of the United States. In Florida, the 1938-1939 crop of oranges is estimated to be 83 percent larger than the ten-year average. Grapefruit production in that State and in Texas has likewise expanded sharply in recent years. The current crop in Florida is estimated to be 72 percent and in Texas 522 percent larger than the long term annual average.

Citrus growers in this district, marketing their record-size crops in face of these heavy competing supplies from Texas and Florida, are experiencing a relatively unfavorable year. Prices in the current marketing year which began on November 1, have been at low levels and shipments have been curtailed to prevent further declines. Income to growers for the first three months of the current season is estimated to be more than 15 percent below returns in the comparable months last season. Receipts of lemon growers have declined more sharply than income received by orange growers.

Beginning with the week ending February 8, city member banks submitted weekly reports of principal resource and liability items on a revised form. The immediate effect of the introduction of the revised form on the published weekly statement of banks in the larger district cities was the transfer of certain items, previously classified as loans for commercial, industrial, and agricultural purposes, or as loans on real estate, or as non-Government securities, amounting to \$20,800,000, to the "other assets" classification. Notwithstanding the resulting immediate reduction of \$20,800,000 in loans and non-Government securities, total loans and investments of weekly reporting city banks were moderately larger on February 21 than at the beginning of the year. This increase was accounted for entirely by an expansion in investments, particularly in holdings of Government securities. After making full allowance for the decrease in loans attributable to the transfer referred to above, total loans were unchanged. Decreases took place in loans for commercial, industrial, and agricultural purposes and in miscellaneous advances included in the "other" loan classification. Total adjusted demand and time deposits remained about unchanged during January and the first three weeks of February.

**Federal Relief Expenditures—Twelfth District
April 8, 1935—December 31, 1938**

Under the Emergency Relief Appropriation Acts of 1935, 1936, 1937, and 1938, Congress made available \$10,349,126,000 for relief and work relief throughout the United States and possessions. These appropriations for "relief and work relief" do not include funds for any of the ordinary functions of Government, nor do they include all types of relief and recovery expenditures. For example, they do not include large sums loaned by various Government agencies such as the Reconstruction Finance Corporation, and Farm Credit Administration in connection with the recovery program, nor do they include benefit payments by the Agricultural Adjustment Administration. Although the funds referred to are not representative of all Federal Government disbursements which have affected economic activity, they do cover an important part of such expenditures since April 8, 1935. They are of interest as indicating in tangible form some of the types of projects undertaken with relief funds and the channels into which money was paid, that is, personal services, supplies, and so on.

TABLE I FEDERAL EXPENDITURES IN THE SEVEN WESTERN STATES UNDER THE EMERGENCY RELIEF APPROPRIATION ACTS OF 1935, 1936, 1937, AND 1938

	By Types of Work: April 8, 1935—December 31, 1938											Total	
	(in thousands of dollars)												
	Highways and Streets	Public Bldgs.	Housing Projects	Public Recreation	Conservation Work	Public Util.	Transp. Facilities	Educa. & Clerical Projects	Sewing Canning & Misc.	Admin. Expenses	Reset. & Direct Relief		Relief Grants to States
Arizona	13,955	4,420	—	3,656	21,230	744	170	3,215	3,594	1,891	2,893	5,792	61,561
California	60,813	49,640	64	37,982	99,523	31,021	14,696	76,317	53,033	16,006	9,929	66,410	515,435
Idaho	9,043	1,816	—	1,237	26,453	1,581	447	2,499	2,916	1,879	5,046	3,860	56,777
Nevada	5,298	554	—	1,351	5,270	523	110	777	1,292	711	620	1,087	17,592
Oregon	21,987	5,304	22	4,846	21,355	2,165	3,239	5,558	6,563	2,842	6,537	4,915	85,332
Utah	9,682	4,962	—	2,777	12,339	2,769	1,240	4,241	4,488	2,232	4,719	5,176	54,625
Washington	39,276	16,717	388	11,019	44,919	9,882	3,366	12,642	10,598	5,024	6,489	12,701	173,021
Totals													
Twelfth District	160,054	83,413	474	62,868	231,089	48,685	23,268	105,249	82,484	30,585	36,233	99,941	964,343
United States	2,503,720	746,147	118,548	735,003	1,045,652	598,532	247,503	959,084	772,396	504,928	478,315	922,443	9,632,271

Source: Report of the President of the United States to the Congress showing the status of Funds and Operations under the Emergency Relief Appropriation Acts of 1935, 1936, 1937, and 1938 as of December 31, 1938.

Production and Employment—

Index numbers, 1923-1925 average=100	With Seasonal Adjustment			Without Seasonal Adjustment		
	1939		1938	1939		1938
	Jan.	Dec.	Jan.	Jan.	Dec.	Jan.
Industrial Production*						
Manufactures (physical volume)						
Lumber	89	81	55	63	64	41
Refined oils	—	—	—	166	164	161
Cement	107	135	80	75	100	56
Meat	116	114	116	—	—	—
Wheat flour	120	109	109	120	109	109
Minerals (physical volume)						
Petroleum	—	—	—	94	98	108
Lead (U. S.)†	..	57	69	..	58	70
Silver (U. S.)†	..	85	96	..	86	97
Construction (value)						
Residential building permits‡						
Twelfth District	62	52	35	47	41	27
Southern California	68	57	38	54	49	30
Northern California	58	48	35	46	33	28
Oregon	40	33	28	18	20	13
Washington	36	35	19	30	20	14
Intermountain states	78	60	46	32	39	19
Public works contracts	—	—	—	249	203	132
Miscellaneous						
Electric power production	206	210	196	191	199	182
Factory Employment and Payrolls§						
Employment						
Pacific Coast	97	97	97	91	94	92
California	107	109	111	102	106	107
Oregon	93	81	80	81	78	71
Washington	79	80	76	72	77	70
Payrolls						
Pacific Coast	97	94	91	88	91	83
California	105	105	103	98	103	97
Oregon	93	84	76	78	78	64
Washington	83	74	72	69	71	60

*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.

Of the \$10,349,126,000 appropriated for relief and work relief under the Acts specified, \$9,632,271,000 had been disbursed by December 31, 1938. These expenditures included \$964,343,000 disbursed in the seven western states, or approximately 11 percent of the national total. The seven western states, which, except for the five southeastern counties of Arizona, are in the Twelfth Federal Reserve District, have about 8 percent of the population of the United States. While these seven states received about 11 percent of the \$10,349,126,000 expended during the years covered, that proportion declined from 11.4 percent in the period April 8, 1935-June 30, 1936 to 7.9 percent in the six months ending December 31, 1938. Over the entire period, the agency making the largest disbursements was the Works Progress Administration, whose expenditures in this region were \$496,145,000, or slightly more than half the total. Expenditures through the Department of Agriculture were also large, amounting to \$114,179,000. This included disbursement of \$50,816,000 by the Bureau of Public Roads and more

than \$37,500,000 by the Farm Security Administration.

Table I shows expenditures for relief and work relief by types of work performed. In the Twelfth District states, conservation work received \$231,089,000, the largest total for any type of project. Expenditures on this type of activity accounted for almost 25 percent of the Twelfth District total, whereas in the United States as a whole conservation work took only about 11 percent of relief expenditures. Some of the larger conservation jobs in this region were Grand Coulee Dam in Washington and All American Canal in southern California. Most of the "conservation" funds did not go into large jobs but were used in widespread conservation of natural resources through protection of timber stands, development of natural water supplies and wildlife refuges, erosion control, and improvement of recreational areas, as well as for reforestation and revegetation. Payments for highway and street construction totaled \$160,054,000 in this district, the second largest class of project, as measured by expenditures. Educational, professional, and clerical projects received \$105,249,000. These include numerous "white collar" activities such as research studies and surveys and the Federal art, music, theater, and writers projects. Administrative expenses amounted to slightly more than 3 percent of total disbursements.

Table II shows the channels into which Federal relief and work relief payments were made, such as personal services, supplies, rent, etc. Of the total disbursements in the seven western states under the Emergency Relief Appropriation Acts of 1935, 1936, 1937, and 1938, almost 60 percent or \$566,864,000 went directly for personal services. In addition, an indeterminate portion of funds paid out as grants or loans to states and other administrative areas, or in connection with construction and repair contracts, also went promptly into payrolls. Purchases of supplies and materials such as lumber, cement, and iron, totaled \$87,880,000. Purchases of equipment with these Federal funds totaled only \$11,486,000 or about 1 percent of all expenditures. The comparatively small use of Federal relief funds for purchase of materials, equipment, land, etc., is partly explained by the fact that local and state governments bore a considerable part of the nonlabor costs of relief projects. Since the bulk of the Federal funds were paid directly to individuals for personal services, it is evident that the initial stimulus to business from these relief payments came primarily in the manufacture, processing, and distribution of consumer goods, particularly commodities of the less durable type such as foodstuffs and clothing.

TABLE II FEDERAL EXPENDITURES IN THE SEVEN WESTERN STATES UNDER THE EMERGENCY RELIEF APPROPRIATION ACTS OF 1935, 1936, 1937, AND 1938

By Objects of Expenditure: April 8, 1935-December 31, 1938
(in thousands of dollars)

	Personal Services‡	Supplies and Materials	Rent	Contracts†	Grants	Contractual Services	Equip. Purchased	Land Acquisition	Loans	Employees Accident Compensation	Total Expenditures
Arizona	32,302	6,906	304	4,701	11,804	2,418	1,421	382	1,217	106	61,561
California	318,160	46,602	10,739	12,606	108,460	6,180	5,199	809	5,830	851	515,435
Idaho	29,543	6,959	879	1,686	9,898	2,087	956	769	3,874	126	56,777
Nevada	8,014	1,510	171	243	6,041	732	297	—*	558	26	17,592
Oregon	49,665	7,808	1,729	2,084	15,905	1,934	1,206	1,531	3,276	193	85,332
Utah	30,496	4,457	1,126	1,008	11,086	1,281	720	134	4,210	108	54,625
Washington	98,684	13,638	3,540	18,143	28,044	3,230	1,687	1,316	4,457	282	173,021
Totals											
Twelfth District	566,864	87,880	18,488	40,471	191,238	17,862	11,486	4,941	23,422	1,692	964,343
United States	6,037,626	686,317	286,673	249,330	1,749,002	160,332	89,506	77,001	280,878	15,600	9,632,271

*Less than \$500.00.

‡Federal payroll only.

†Construction, maintenance, and repair contracts.

Source: Report of the President of the United States to the Congress showing the status of Funds and Operations under the Emergency Relief Appropriation Acts of 1935, 1936, 1937, and 1938 as of December 31, 1938.

Summary of National Business Conditions

Prepared by the Board of Governors of the Federal Reserve System

INDUSTRIAL production increased less than seasonally in January and the first three weeks of February, following a rapid advance in the latter half of 1938. Wholesale commodity prices continued to show little change.

PRODUCTION

In January volume of industrial production, as measured by the Board's seasonally adjusted index, was at 101 percent of the 1923-1925 average as compared with 104 in December. At steel mills, where activity usually increases considerably at this season, output in January and the first three weeks of February was at about the same rate as in December. Automobile production declined seasonally in the first two months of the year as retail sales showed about the usual decrease and dealers' stocks reached adequate levels. Output of cement declined in January, and there was also some reduction in output of lumber and plate glass. In the nondurable goods industries, where production had been at a high level in December, activity increased less than seasonally. Increases at cotton, silk, and tobacco factories were smaller than usual and at woolen mills there was a decline. Shoe production and sugar refining continued in substantial volume, and activity at meat-packing establishments showed little change, following a decline in December. Mineral production increased somewhat in January, reflecting an increase in output of crude petroleum.

Value of construction contracts awarded declined in January, according to F. W. Dodge Corporation figures, owing principally to a reduction in awards for publicly-financed projects, which had been in large volume in December. Contracts for privately-financed residential building continued at the recent advanced level, while awards for private nonresidential building remained in small volume.

EMPLOYMENT

Factory employment and payrolls showed the usual decline between the middle of December and the middle of January. In most individual industries, as well as in the total, changes in the number of employees were of approximately seasonal proportions. In trade, employment declined somewhat more than is usual after Christmas.

DISTRIBUTION

Sales at department and variety stores and by mail order houses showed the usual sharp seasonal decline from December to January. In the first two weeks of February department store sales continued at the January level.

Volume of freight-car loadings in January and the first half of February was at about the same rate as in December.

COMMODITY PRICES

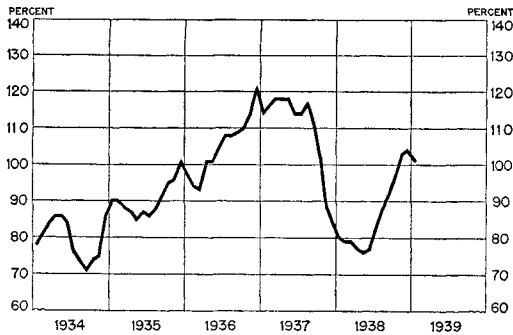
Wholesale commodity prices generally continued to show little change in January and the first three weeks of February. Grain prices declined somewhat, following a rise in December, while prices of hogs increased seasonally. Changes in prices of industrial materials were small.

BANK CREDIT

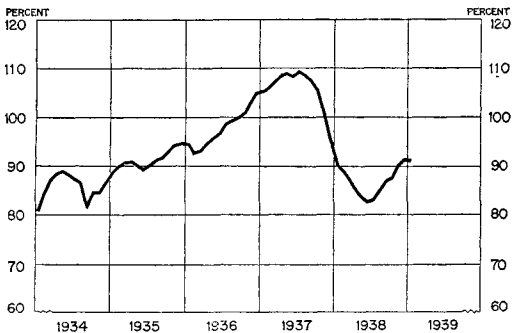
Excess reserves of member banks, which reached a record high level of \$3,600,000,000 on January 25, declined somewhat in February. This decline resulted chiefly from a temporary increase in Treasury balances with the Reserve banks representing cash receipts from the sale of the new United States Housing Authority and Reconstruction Finance Corporation notes. Purchases of these notes were also responsible for an increase in total loans and investments of reporting member banks in 101 leading cities, following a decline during January.

MONEY RATES

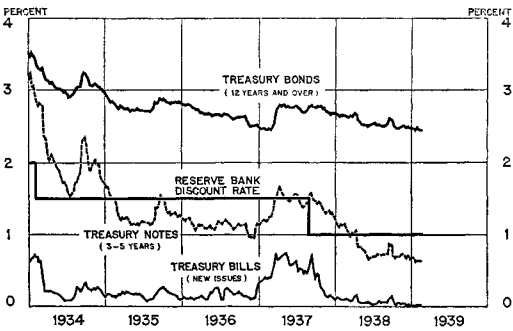
Average yields on United States Government securities declined further during the first three weeks of February to about the lowest levels ever reached. New issues of 91-day treasury bills, after selling at par or at a slight premium in late December and early January, were again on a slight discount basis during February. Other open market rates continued unchanged



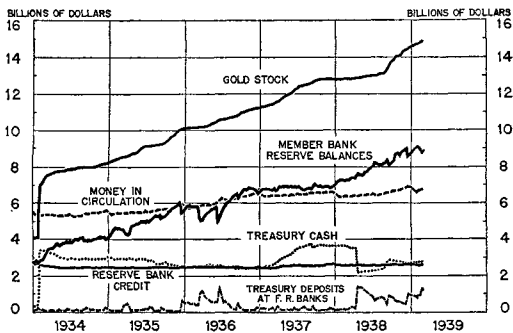
INDUSTRIAL PRODUCTION
Index of physical volume of production, adjusted for seasonal variation, 1923-1925 average=100. By months, January 1934 to January 1939.



FACTORY EMPLOYMENT
Index of number employed, adjusted for seasonal variation, 1923-1925 average=100. By months, January 1934 to January 1939.



MONEY RATES IN NEW YORK CITY
For weeks ending January 6, 1934 to February 18, 1939.



MEMBER BANK RESERVES AND RELATED ITEMS
Wednesday figures, January 3, 1934, to February 21, 1939.