

MONTHLY REVIEW

BUSINESS CONDITIONS IN THE TWELFTH FEDERAL RESERVE DISTRICT

Federal Reserve Bank of San Francisco

April 1, 1939

ALTHOUGH there was a slight dip in Twelfth District production and trade during February, business in this region appears to be marking time following a considerable expansion in the second half of 1938. After the middle of last year, many industries found it necessary to increase production to meet current demand, since previously burdensome inventories of manufacturers and distributors had been pretty well cleared by that time. In addition, a modest rise in consumer demand appeared in the latter part of 1938, owing partly to increased employment and payrolls in industry and partly to increased Government expenditures in this district, as well as to other factors. The increase in demand for goods was particularly notable in the case of building materials, since private residential construction and public works rose considerably even though private investment in plant facilities continued in small volume. Greater demand was also evident in industries such as automobile assembly, automobile tires, motion pictures, apparel manufacture, and household furnishings. Gains in industrial operations and building were accompanied and followed by a rise in employment and in consumer income, which in turn tended to increase demand further. Throughout the period since mid-1938, production seems to have been closely gauged to current consumption of goods by individuals and producers, and there has been little or no evidence of advance buying which would result in accumulation of heavy inventories by manufacturers or distributors.

INDUSTRY AND TRADE

Expansion in new residential construction was an important factor in the recovery of district production and distribution during the second half of 1938. Further sharp gains in this class of building took place in January 1939, but in February the seasonally adjusted index of value of permits fell back to the December level when it was 52 percent of the 1923-1925 average, a figure slightly higher than in any other month of 1938. After declining for four consecutive months, value of nonresidential building permits was practically unchanged in February and was about the same as a year earlier. Contracts awarded for public works decreased during the month.

Somewhat more than two-thirds of the district output of lumber is used in construction locally and elsewhere in the United States, the remainder going into box manufacture, to the railroad industry, to miscellaneous fabricators, and to the foreign market. The expansion in new residential building last year consequently resulted in an upturn in new lumber orders received by district mills. A decline in new business became evident late in December, however, continuing irregularly through the first two months of 1939. On a daily average basis, new orders were about 30,000,000 feet in February, nearly 20 per-

cent less than in December but about the same as in February 1938. In the succeeding three weeks, however, new business advanced and in the week ending March 18, orders were larger than at any time since mid-December. Lumber production, changes in which usually lag behind new orders received by mills, advanced sharply in December and January after allowance for seasonal influences, but declined in February.

Output of cement, which decreased sharply in January, did not expand by the full seasonal amount in February. A large part of this curtailment of production reflects the temporary stoppage in cement pouring operations at Grand Coulee Dam.

In the petroleum industry, daily average output of crude oil, which had been reduced to 622,000 barrels in January, remained unchanged in February. On the basis of preliminary figures, output appears to have advanced slightly in the first 18 days of March. Despite the curtailment of output early in the year, total inventories have continued to increase, and on February 28 were higher than at any time since early 1933.

In miscellaneous other industries output showed only small changes during February, after allowance for seasonal influences. Activity at district aircraft plants continued at recent high levels, and steel, furniture, and pulp and paper production remained at about the levels of the preceding month. Small declines in automobile assemblies, rubber tire and tube production, copper mining and smelting operations, petroleum refining, and meat packing took place in February, while output of flour increased moderately. In any of these industries in which stocks are significant, there has been no evidence of inventory accumulation in recent months except in the case of copper and petroleum.

Shipments of goods by rail in the Twelfth District declined considerably more than seasonally in January and again in February. These declines followed equally sharp advances in the last two months of 1938, and in February this bank's adjusted index of freight-car loadings was still slightly higher than in October last year. Rail shipments of merchandise and miscellaneous goods in February remained considerably higher than in October, the decline in total freight-car loadings during the past two months having come largely in shipments of industrial products.

After increasing considerably in the late fall and early winter, aggregate industrial employment in the three Pacific Coast states remained unchanged in January and February, after allowance for seasonal influences. In the Pacific Northwest the number of wage earners employed in mills and factories was 8 percent higher in February than a year earlier, principally reflecting greater activity in the lumber industry, while in California industrial employment was slightly lower than in February 1938. Pay-

rolls declined moderately from mid-January to mid-February, owing principally to a considerable reduction in Washington. In the aggregate, however, wage payments were 7 percent higher than in February last year, primarily because workers are now employed more nearly on a full-time basis.

Judging from available information, retail sales decreased in February after allowance for seasonal influences. For the third successive month this bank's adjusted index of the value of district department store sales declined slightly. Apparel and furniture store sales were also lower than in the preceding month, while the number of new automobiles sold decreased although some expansion is usual in February. Considering customary seasonal adjustments, inventories of department stores remained unchanged in February at the levels of the past four months.

AGRICULTURE

Two years of record output of farm products accompanied by reduced domestic and foreign market demand, continue to exert a depressing influence upon farm income in this district. Substantial purchases of a number of farm commodities have been made by the Federal Government for distribution to persons on relief. The Government and cooperative marketing associations have diverted large tonnages into by-products or into other uses where they do not compete in the ordinary channels of trade. Despite these and other aids, and despite heavy marketings in ordinary commercial channels—shipments of several crops were of record size the past season—stocks of many farm products in the district remain burdensome.

As a result of these conditions prices paid farmers for their products have continued at low levels. After declin-

ing sharply in late 1937 and tending lower during much of 1938, prices turned upward in November and December of last year. The moderate advances in that period, however, have been largely offset by declines during January and February, and in March 1939 prices of district farm products averaged 7 percent lower than in March 1938. Cash income received by farmers in the Twelfth District has fluctuated in recent months with these price changes. Small gains took place in November and December, but they were largely offset by declines during the first two months of 1939 and in February farm cash receipts were approximately 6 percent lower than a year earlier.

Although it is too early to estimate probable district output of farm products in the coming season with any degree of finality, current prospects indicate that if any reduction from the levels of the preceding two years occurs it is likely to be small. Unless conditions change materially between now and harvest time, output of tree fruits will be of near-record volume again this season. Only a slight curtailment in total acreage planted to grains, field crops, and truck crops has been reported by growers. Subnormal precipitation has resulted in some shortage of soil moisture, but this has been largely confined to the interior valleys of California. As a result, output may be curtailed locally this season but no serious and widespread reduction is anticipated at this early date. Frost damage to crops had been negligible as late as mid-March. While irrigation water will be less ample than last year unless snow packs are increased by unusually large amounts in the next few weeks, no serious shortage is foreseen at this time.

During the three months period from March 15 to June 15 California producers usually market 1,100,000 to 1,200,000 early lambs, valued in excess of \$5,000,000. Eastern and mid-western markets purchase about 40 percent of these lambs, while the remaining 60 percent are consumed locally. The number of early California lambs produced this year approached the record of 1938. Weather conditions were excellent during lambing and

Production and Employment—

	Index numbers, 1923-1925 average=100			With Seasonal Adjustment			Without Seasonal Adjustment		
	1939	1938	1938	1939	1938	1938	1939	1938	1938
Industrial Production*									
Manufactures (physical volume)									
Lumber	75	88	55	59	62	44	150	160	157
Refined oils	86	107	73	76	75	65	—	—	—
Cement	112	116	116	—	—	—	—	—	—
Meat	126	121	118	126	121	118	—	—	—
Wheat flour	—	—	—	—	—	—	—	—	—
Minerals (physical volume)									
Petroleum	—	—	—	94	94	111	—	—	—
Lead (U. S.)†	—	70	67	—	71	69	—	—	—
Silver (U. S.)†	—	86	96	—	86	104	—	—	—
Construction (value)									
Residential Building Permits‡									
Twelfth District	52	63	32	47	48	29	—	—	—
Southern California	62	71	39	54	56	34	—	—	—
Northern California	40	57	21	43	45	22	—	—	—
Oregon	27	39	21	26	18	20	—	—	—
Washington	28	34	18	23	26	22	—	—	—
Intermountain states	78	81	49	36	33	23	—	—	—
Public works contracts	—	—	—	157	249	487	—	—	—
Miscellaneous									
Electric power production	211	208	197	194	192	181	—	—	—
Factory Employment and Payrolls§									
Employment									
Pacific Coast	97	97	95	92	91	91	—	—	—
California	107	107	108	104	102	105	—	—	—
Oregon	91	91	77	82	80	70	—	—	—
Washington	78	81	76	73	73	71	—	—	—
Payrolls									
Pacific Coast	95	97	88	90	88	84	—	—	—
California	104	105	100	102	98	98	—	—	—
Oregon	92	93	75	80	78	65	—	—	—
Washington	76	83	70	69	70	63	—	—	—

*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.

Distribution and Trade—

	Index numbers, 1923-1925 average=100			With Seasonal Adjustment			Without Seasonal Adjustment		
	1939	1938	1938	1939	1938	1938	1939	1938	1938
Retail Trade									
Department store sales (value)*									
Twelfth District	93	94	90	78	77	76	—	—	—
California	99	99	96	84	83	81	—	—	—
Los Angeles	89	93	88	78	79	78	—	—	—
Bay Region	108	105	101	91	86	85	—	—	—
San Francisco	105	102	98	90	85	84	—	—	—
Oakland	118	113	109	95	88	87	—	—	—
Pacific Northwest	72	74	69	56	56	55	—	—	—
Seattle	81	84	77	64	64	61	—	—	—
Salt Lake City	72	69	76	57	52	60	—	—	—
Department store stocks (value)† ..	65	66	66	63	60	64	—	—	—
Furniture store sales (value)*‡	70	81	68	63	67	62	—	—	—
Furniture store stocks (value)†‡ ..	69	69	76	66	65	72	—	—	—
Automobile sales (number)*									
Total	—	—	—	74	84	64	—	—	—
Passenger	—	—	—	69	80	57	—	—	—
Commercial	—	—	—	131	132	137	—	—	—
Carloadings (number)*									
Total	80	89	79	67	70	65	—	—	—
Merchandise and misc.	94	96	93	78	79	78	—	—	—
Other	62	82	59	53	59	50	—	—	—
Intercoastal Traffic (volume)									
Total	60	59	49	53	59	44	—	—	—
Eastbound	52	51	39	46	53	34	—	—	—
Westbound	86	87	84	78	78	76	—	—	—

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

losses of animals during the past winter were light. Lack of green feed because of subnormal rainfall in February and March retarded the growth of lambs, however, and forced growers to use supplemental feed freely. This is expected to reduce the percentage of lambs that will be finished on California ranges for slaughter. As a result it will probably be necessary to finish the bulk of the California lambs for slaughter in local or mid-western feed lots, with consequent reduction in incomes of local producers. The number of early spring lambs produced in Arizona, Idaho, Oregon, and Washington is not greatly different from last year, and ewes and lambs are in good condition. The past winter has been mild, and prospects for spring ranges are good.

As sheep shearing progressed in early shearing areas of the district, a considerable volume of sales of 1939 clip wool was reported. Prices received by growers have been somewhat higher than those received a year ago, but are 25 to 30 percent lower than the high levels prevailing in the first quarter of 1937.

BANKING AND CREDIT

Total loans and investments of district reporting member banks declined considerably in the four weeks ending March 22. Holdings of United States Government obligations were lower than at any time since the Treasury quarterly financing operations last December. Investments in other securities also decreased and loans for commercial, industrial, and agricultural purposes continued the decline in evidence since late last fall. Adjusted demand deposits declined during the four week period while time deposits remained about unchanged.

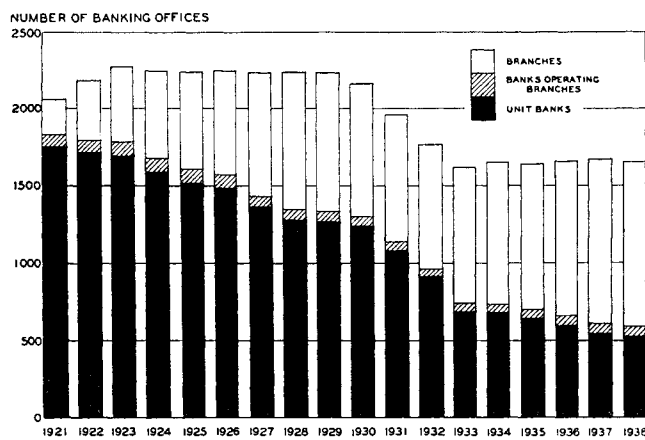
Member bank reserve balances, which were lower in late February than at any time since early 1937 except for a brief period last spring, increased moderately during the first three weeks of March. Despite first quarter Federal income tax receipts of about \$36,000,000 during the first 22 days of the month, United States Treasury collections were exceeded by disbursements in the district during that period. These net disbursements added to local member bank reserve balances. In addition, local banks and their customers received net payments from other sections of the country and a return of currency from circulation took place during the first three weeks of March.

Excess reserves of district member banks increased during the first half of March to a daily average of \$111,300,000. This increase reflected the small advance in member bank reserve balances and a reduction in deposits against which the banks are required to maintain reserves. During February, excess reserves averaged \$100,000,000, the lowest level for any month since the reduction in reserve requirements effective April 16, 1938.

Changes in Twelfth District Banks—1938

Continuing the trend in evidence since 1921, the number of banks in the Twelfth Federal Reserve District declined in 1938 and at the year-end 17 fewer banks were in operation than at the end of 1937. The reduction in number of banks came about entirely as a result of consolidations, there having been no bank failures or voluntary liquidations in this district during the year.

Many of the institutions taken over during 1938 were continued in operation as branches of the banks with which they were consolidated. A number of branch offices were discontinued during the year, however, and, since only one new bank and only five *de novo* branch offices were established, the total number of banking offices in the district declined from 1666 to 1656.



NUMBER OF BANKING OFFICES—Twelfth District

Figures as of end of each year.

Of the 1656 offices at the end of 1938, 521 were unit banks having no branch offices, 64 were head offices of banks operating branches, and 1,071 were branch offices. The combined number of unit banks and head offices of branch operating banks was smaller than at any time since 1903, whereas the number of branch offices was larger than at any previous time.

Branch banking has been developed to a considerably greater extent in the Twelfth District than in other parts of the United States. Almost a third of the 3,407 branches operated by banks in the United States at the end of 1937 were located in this district. Since 1933, statewide branch banking has been permitted in all seven states of the district and at least one widespread branch system is now in operation in each of these states. Of the 149 cities in the district having a population of 5,000 or more at the time of the Census of 1930, 140 were served by one or more branch banks at the end of 1938. In addition, of course,

BANKS IN OPERATION—TWELFTH DISTRICT

(Figures as of December 31. Assets in thousands of dollars)

State	Member Banks				Nonmember Banks				All Banks			
	Number		Assets		Number		Assets		Number		Assets	
	1937	1938	1937	1938	1937	1938	1937	1938	1937	1938	1937	1938
Arizona	5	5	60,100	63,725	3	3	10,007	10,567	8	8	70,107	74,292
California	117	117	3,866,437	4,013,286	113	113	478,100	461,887	235	230	4,344,537	4,475,173
Idaho	30	30	89,412	89,251	22	22	16,175	14,795	52	52	105,587	104,046
Nevada	5	5	34,610	35,173	4	4	2,635	2,645	9	9	37,245	37,818
Oregon	33	35	272,775	282,174	44	42	40,469	40,446	77	77	313,244	322,620
Utah	32	33	136,158	145,991	27	26	31,579	63,056	59	59	167,737	209,047
Washington	69	63	448,001	457,757	93	87	112,937	115,375	162	150	560,938	573,132
Twelfth District	291	288	4,907,493	5,087,357	311	297	691,902	708,771	602	585	5,599,395	5,796,128

many smaller communities were served by branches of metropolitan banks, in many instances these branches providing the only banking facilities in their communities.

Extension of branch banking in the Twelfth District during 1938 took place mainly in the State of Washington. During the year, 13 Washington banks were acquired by others and 11 of those banks were operated as branches

BRANCH BANK ASSETS—TWELFTH DISTRICT
(in thousands of dollars)

State	Member Branch Banks		Nonmember Branch Banks		Ratio Branch Bank Assets to All Bank Assets	
	1937	1938	1937	1938	1937	1938
Arizona	57,795	61,389	4,416	4,672	88.7	88.9
California	3,321,123	3,486,133	385,146	399,244	85.3	86.8
Idaho	66,155	66,797	3,452	3,780	65.9	67.8
Nevada	31,654	32,275	0	—	85.0	85.3
Oregon	235,126	243,904	2,696	2,908	75.9	76.5
Utah	56,237	41,994	2,065	2,986	34.8	21.5
Washington	315,098	333,316	4,337	4,380	56.9	58.9
Twelfth District	4,083,188	4,265,808	402,112	417,970	80.1	80.8

after the consolidations. No *de novo* branches were established in Washington in 1938, but one new branch office was established in Arizona and another in Utah during the year. In Arizona, this was the only change affecting the number of branches. In Utah, establishment of a *de novo* branch in 1938 was accompanied by discontinuance at about the same time of a branch of another bank that had previously been operated in the same town. In Idaho, Nevada, and Oregon, no change in the number of banks in operation occurred during the year, and no branch offices were established or discontinued.

In California, where branch banking has been developed more widely than in any other State of the Union, the tendency among branch systems in 1938 was toward consolidating existing positions rather than toward further extension of branches. Ten branch offices, six of them in cities in which the head offices of the parent banks were located, were discontinued in 1938. Five banks were absorbed during the year but these consolidations resulted in the establishment of only two additional branch offices. Opening of *de novo* branches was restricted to three, one of which was in the head office city of the parent bank. As a result of these several changes, the number of branches in operation in California declined by five during 1938, the reduction coming entirely in cities in which the head offices of the branch systems are located.

Banks operating branches accounted for 80.8 percent of total district banking assets on December 31, 1938, a

slightly larger proportion than a year earlier when they accounted for 80.1 percent of the total. This increase took place despite the fact that one large bank in Utah which had previously operated a single branch discontinued its additional office in 1938, and thus returned to the "non-branch" category. The assets of that bank were consequently excluded from the total for banks having branches on December 31, 1938.

The reduction from 602 to 585 in the total number of banks in the Twelfth District in 1938 came principally in banks which were not members of the Federal Reserve System. The number of nonmember banks declined from 311 to 297 during the year, while the number of member banks declined from 291 to 288. The net decrease of three member banks reflected a decline of seven because of consolidations, offset in part by entrance into the Federal Reserve System of four state banks formerly not members. The net reduction of 14 in number of nonmembers reflected the shift of four banks to the member bank category and the consolidation of 11 nonmember banks, partly offset by opening of one new nonmember bank in Aber-

BRANCH BANKS IN OPERATION—TWELFTH DISTRICT

	Banks Operating Branches					Branches				
	No. of Bks.	Total	Nat. Bks.	Mem. Bks.	Non-Mem. Bks.	Operated by State	Operated by Non-Mem.	Operated by Mem.	Located in Home City	Located Outside Home City
Dec. 31, 1937										
Arizona	8	3	2	0	1	24	20	0	4	1 23
California	235	36	10	7	19	857	684	134	39	242 615
Idaho	52	6	4	1	1	31	16	13	2	0 31
Nevada	9	2	2	0	0	10	10	0	0	1 9
Oregon	77	4	2	0	2	65	63	0	2	11 54
Utah	59	5	3	0	2	12	9	0	3	1 11
Washington	162	9	6	1	2	65	62	1	2	15 50
Totals	602	65	29	9	27	1,064	864	148	52	271 793
Dec. 31, 1938										
Arizona	8	3	2	0	1	25	21	0	4	1 24
California	230	35	10	7	18	852	683	129	40	237 615
Idaho	52	6	4	1	1	31	16	13	2	0 31
Nevada	9	2	2	0	0	10	10	0	0	1 9
Oregon	77	4	2	0	2	65	63	0	2	11 54
Utah	59	5	2	0	3	12	8	0	4	1 11
Washington	150	9	6	1	2	76	73	1	2	15 61
Totals	585	64	28	9	27	1,071	874	143	54	266 805

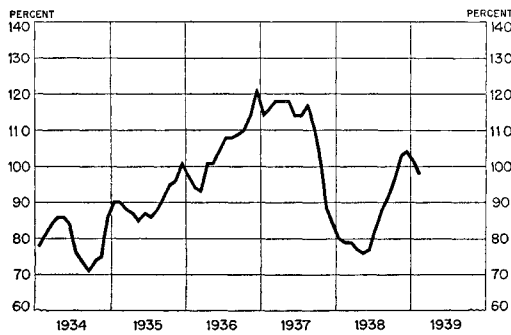
deen, Washington. Of the 11 nonmember banks absorbed during the year, six were consolidated with member banks. These developments contributed to a further small increase in the proportion of total district banking assets held by member banks from 87.6 percent at the end of 1937 to 87.8 percent at the end of 1938.

MONTHLY REVIEW

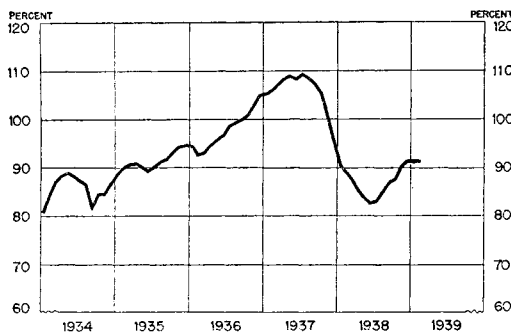
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Federal Reserve Bank of San Francisco

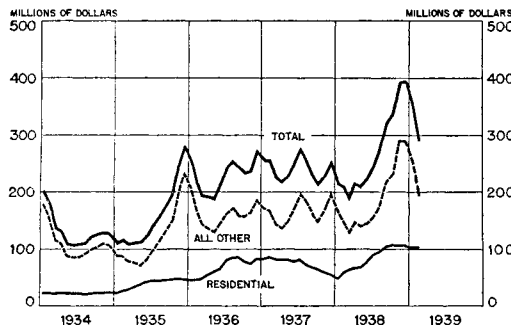
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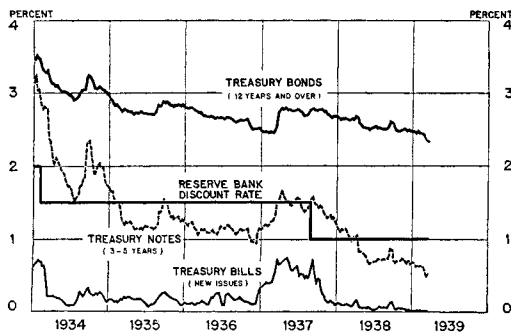
INDUSTRIAL PRODUCTION
Index of physical volume of production, adjusted for seasonal variation, 1923-1925 average=100. By months, January 1934 to February 1939.



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



CONSTRUCTION CONTRACTS AWARDED
Three-month moving averages of F. W. Dodge Corporation data for value of contracts awarded in 37 Eastern States, adjusted for seasonal variation. Latest figures based on data for January and February and estimate for March.



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

Summary of National Business Conditions

Prepared by the Board of Governors of the Federal Reserve System

IN February industrial activity continued at the January rate, without showing the usual rise, and retail trade increased less than seasonally. In the first three weeks of March, however, industrial activity and trade showed seasonal increases. Commodity prices continued to show little change.

PRODUCTION

Volume of industrial production was at about the same rate in February as in the two previous months, although usually there is an increase, and the Board's seasonally adjusted index declined further to 98 percent of the 1923-1925 average. In the steel industry activity did not show the usual seasonal advance. Pig iron production increased, but new orders for steel were in limited volume and ingot production remained at about 54 percent of capacity throughout the month. There was some decline in automobile assemblies, following a period of considerable increase. Output of lumber and plate glass continued to decrease in February, while cement production, which had been curtailed in January, increased considerably. In the first three weeks of March steel production increased to about 56 percent of capacity and automobile output was also in somewhat larger volume.

Textile production in February was at about the same rate as in January. At cotton and woolen mills activity increased somewhat but at silk mills there was a marked decline. Output of shoes and tobacco products continued at high levels. In the meat-packing industry activity declined further and there was also a decrease in activity at sugar refineries.

Bituminous coal production was maintained in February, and crude petroleum output likewise continued in substantial volume. Anthracite output declined in February, and in March was reduced further as mine owners and workers agreed on a curtailment program.

Value of construction contracts awarded declined in February, according to F. W. Dodge Corporation figures, owing principally to a further decrease in awards for publicly-financed work. Contracts for privately-financed residential building increased further, while awards for private nonresidential building remained at the low level of other recent months.

EMPLOYMENT

Factory employment and payrolls increased somewhat less than is usual between the middle of January and the middle of February. Changes in nonmanufacturing lines were largely of a seasonal nature.

DISTRIBUTION

Department store sales were in about the same volume in February as in January, although some increase is usual, and sales at variety stores increased less than seasonally, while mail order sales rose by slightly more than the seasonal amount. In the early part of March department store sales increased.

Freight-car loadings declined somewhat from January to February, reflecting for the most part reduced shipments of grains, forest products, and miscellaneous freight.

COMMODITY PRICES

Wholesale commodity prices were generally maintained with little change during February and the first three weeks of March. As is usual at this season prices of livestock and meats increased while dairy products declined. Silk prices advanced considerably in this period. In the early part of March current prices of pig iron and of semi-finished and finished steel were reaffirmed for the second quarter of this year.

BANK CREDIT

Investments in United States Government obligations by New York City banks increased considerably in February and the first half of March. In this period member banks reduced their holdings of Treasury notes and increased their bonds, reflecting in part exchanges of notes for new bond issues on March 15. Excess reserves of member banks continued somewhat below the high level of \$3,600,000,000 reached at the end of January, fluctuating largely in accordance with changes in Treasury balances at the Federal Reserve banks.

MONEY RATES

Average yields on United States Government securities declined to new record low levels from February 27 to March 10, following the announcement by the Treasury that no cash would be raised in the March financing. Yields rose slightly after the middle of March accompanying renewed tension in Europe. New issues of 91-day Treasury bills continued to sell on practically a no-yield basis during March. Other open market rates continued unchanged.