

# MONTHLY REVIEW

## BUSINESS CONDITIONS IN THE TWELFTH FEDERAL RESERVE DISTRICT

*Federal Reserve Bank of San Francisco*

*May 1, 1939*

**T**WELFTH District industry and trade continued at substantially the same levels in March as in January and February. Taking the first quarter as a whole, consumer demand for most commodities was well maintained, the most important exception being for automobiles. After declining in February, retail automobile sales failed to increase by anything approaching seasonal expectations in March. While sales of new automobiles were slow during March, considering the seasonal expansion usual in that month, sales of other durable consumer goods for which information is available were maintained in good volume. Demand for new homes continues strong, and retail furniture sales appeared in March to have maintained the slow expansion evident during most of the past year. In addition, department store sales of high-unit-cost household appliances have displayed no tendency to decline. The level of aggregate sales of non-durable consumer goods including food, apparel, motor fuel, drugs, and the like has been practically unchanged since early in 1938.

### RESIDENTIAL BUILDING

Residential building activity advanced slightly more than is usual in March and on a seasonally adjusted basis was higher than at any time in more than 10 years, excepting January of this year. The upturn was not general, being largely attributable to sharp expansion in several Intermountain cities and to additional permits, totaling \$794,500, issued in connection with the large Wyvernwood rental project in East Los Angeles. The adjusted index of new residential construction fluctuated narrowly around 50 percent of the 1923-1925 average in the second half of 1938 but has been moderately higher in the first quarter of 1939. In March, it advanced two points to 54, and preliminary data for April indicate the index will probably be about 54 in that month.

### MANUFACTURING

New orders received by lumber mills rose abruptly late last November and early in December, largely as a result of considerable forward buying by distributors supplying the residential building market. Mill operations were advanced to fill these orders and, with the customary substantial lag between receipt of orders and delivery, expansion in production extended into January of this year. Following the bulge in orders in the late fall, new business declined and producers have recently reduced output to prevent the accumulation of excess stocks. In March, this bank's seasonally adjusted index declined to 68 percent of the 1923-1925 average, compared with 81 in December, 88 in January, and 63 in March a year ago. Early in March, however, the downward movement in orders was reversed, and in the two weeks ending April 15 new business received was at a rate only moderately below the high levels of the first half of December. Prices at the mill, which had weakened earlier in the year, tended somewhat higher late in March.

Reflecting the reduced level of new car and truck sales in February and March, employment and working hours at district automobile assembly plants declined in those months. In mid-March, the number of man-hours was running about 22 percent lower than in mid-January. There was little change in activity at tire plants during the first three months of this year.

Daily average output of petroleum during the first 22 days of April was approximately the same as in each of the preceding three months, and 10 percent lower than the high 1938 average. Stocks of gasoline-bearing crude increased by a small amount, however, and on March 31 were higher than at any time since 1936. Finished and unfinished gasoline stocks also rose moderately, but the increase appears to have been seasonal. The upward trend of gasoline consumption was affected but little by the business downturn of 1937-1938. A leveling off in sales, after allowance for the customary sharp seasonal fluctuations, was apparent during much of 1938, but late in the year the upward movement was resumed. On a seasonally adjusted basis, gasoline consumption in December 1938 and January 1939 was the highest on record, and changes in demand since that period have been only nominal. Records over the past few years show that gasoline producing operations conform closely to sales, except that inventories, in anticipation of the summer peaks in sales, are customarily built up in the preceding fall and winter months. Inasmuch as utilization of fuel oil manufactured as a by-product of gasoline has not kept pace with gasoline sales, refinery stocks of that item increased almost continuously from mid-1937 through October 1938. To those fuel supplies have been added large quantities of crude, suitable only for fuel purposes, resulting from expanded drilling operations. On October 31, 1938, stocks of fuel oils reached a total of 100,000,000 barrels, compared with a 1937-1938 low of 70,000,000 barrels. On March 31, 1939, stocks were still close to the 100,000,000 barrel level of last October, indicating that attempts to stabilize the petroleum industry have been at least partly successful.

Stocks of canned fruits and vegetables held by producers have been materially reduced in recent months, and are now considerably lower than they were a year ago. While inventories of some canned fruits remain considerable, unsold stocks are reported to be moving in good volume at firm prices. Preliminary information indicates that the 1939 packs of early vegetables will be about the same as last year. It is tentatively estimated that the California spinach pack, begun late in March, will be little larger than the light 1938 pack of 1,040,000 cases, which was the smallest since 1932. Asparagus canners and growers have agreed upon a maximum pack of 1,850,000 cases. This compares with a 1938 pack of 1,800,000 cases, also the lowest since 1932. Producers' stocks of canned salmon were lower on March 31 than at the end of the first quarter in most recent years. Movement of canned salmon has been considerably greater than seasonal since

the first of this year, and prices for some grades were higher on April 1 than a month earlier.

Flour milling activity declined more than seasonally in March, and was approximately the same as a year ago. During the first quarter of 1939, however, output was higher than in any corresponding period during the past 16 years except in 1924 and 1929, owing principally to heavy export demand. The adjusted index of meat production was 116 percent of the 1923-1925 average in March, the same as the 1937 and 1938 monthly averages. This is one of the more stable food industries; in more than two years the index has rarely deviated by more than four points from the 116 percent level.

#### AGRICULTURE

Prices paid farmers and livestock growers for their products advanced slightly in March and April, and volume of farm marketings expanded seasonally to levels somewhat higher than in the early spring of 1938. Last year, marketings of early crops and livestock were delayed by heavy rains; this year, less than the normal amount of rainfall and favorable growing weather thus far have resulted in early maturing and marketing of crops. In addition, the Federal wheat and flour export subsidy program has stimulated sales of wheat by farmers in the Pacific Northwest considerably during recent months.

Cash receipts of wheat and apple growers in Idaho, Oregon, and Washington have been considerably above the extremely low returns received in the comparable period last year, and total farm income in that area during the first quarter of 1939 is estimated to be more than 20 percent larger than in the first quarter of 1938. Income elsewhere in the district was smaller than a year ago, with the largest declines recorded for Arizona and California. Reduced income from marketings of cattle, citrus fruits, cotton, hogs, and rice were the principal sources of the decline in returns to farmers in those states. Cash receipts from the sale of dairy products, influenced by low milk and butter prices, were down in all states of the district. For the entire district, total farm cash income during the first three months of this year was slightly higher than in comparable months of 1938.

Physical conditions were generally favorable for current farm operations in March and early April, except in parts of California and Oregon where sub-normal rainfall has reduced anticipated crop output on nonirrigated lands and forced growers to irrigate more heavily than is customary at this season. Fortunately, this comparatively dry season was preceded by several years of generous rainfall which raised the water table in most of the important agricultural areas of the district. Nevertheless, with snow packs in the mountains much lighter than in 1938, supplies of irrigation water are expected to be adequate only if used carefully. The outlook for late irrigation water is poor to fair.

Average annual precipitation—rainfall and snowfall combined—in the Twelfth District varies from practically nothing in some desert areas of the southwest to well over 100 inches in parts of western Washington. Although a considerable portion of the farm acreage in this district is so-called "dry land," relying solely upon rain and snowfall for moisture, many important crop producing areas depend mainly upon irrigation. Of the 96,307,000 acres of the district classed as farm land in

1934 (latest date for which accurate figures are available), 7,143,000 acres, or 7 percent were under irrigation. In terms of crop land, which totaled 30,515,000 acres in 1934, more than 23 percent was irrigated. The amount of land now under irrigation is estimated to be somewhat larger than in 1934.

Irrigation projects are of importance in each State of the Twelfth District, although in some of the most pro-

#### LAND AREA, ACREAGE IN FARMS, CROP LAND, AND IRRIGATED LAND (in thousands of acres)

	Land Area	Farm Land	Crop Land	Irrig. Land	Percent Under Irrigation	
					Farm Land	Crop Land
Arizona	72,838	14,018	849	430	3	51
California	99,617	30,438	11,631	3,488	11	30
Idaho	53,347	9,952	4,284	1,388	14	32
Nevada	70,285	3,622	380	253	17	67
Oregon	61,189	17,358	4,921	579	3	12
Utah	52,598	6,239	1,706	583	9	34
Washington	42,775	14,680	6,744	422	3	6
Twelfth District....	452,649	96,307	30,515	7,143	7	23

Source: Census of Agriculture, 1935.

ductive states only a small percentage of crop land is under irrigation. In Arizona, the Salt River Valley around Phoenix, the Gila River Basin some distance southwest of Phoenix, and the lower Colorado River Basin around Yuma are important irrigated sections which account for more than half the total crop land of the State. In California, irrigated lands include the Imperial Valley, the citrus fruit producing sections of southern California, and much of the San Joaquin and Sacramento valleys, as well as other small areas in the central and northern parts of the State. In Idaho, irrigated regions are scattered over the southern half of the State and in the aggregate include a third of the crop land. About two-thirds of the crop land of Nevada is irrigated, most of it located in the west central part of the State.

#### Production and Employment—

Index numbers, 1923-1925 average=100	With Seasonal Adjustment			Without Seasonal Adjustment		
	1939	1938	1938	1939	1938	1938
	Mar.	Feb.	Mar.	Mar.	Feb.	Mar.
<b>Industrial Production*</b>						
Manufactures (physical volume)						
Lumber	68	74	63	63	58	58
Refined oils	—	—	—	158	150	156
Cement	..	86	55	..	76	56
Meat	116	112	119	—	—	—
Wheat flour	121	124	116	115	124	114
Minerals (physical volume)						
Petroleum	—	—	—	95	94	110
Lead (U. S.)†	..	..	64	..	..	65
Silver (U. S.)†	..	..	98	..	..	106
Construction (value)						
Residential Building Permits‡						
Twelfth District	54	52	34	62	47	39
Southern California	63	62	36	72	55	42
Northern California	42	42	30	51	45	37
Oregon	21	27	22	31	26	32
Washington	36	29	23	41	24	27
Intermountain states	92	70	60	82	33	54
Public works contracts	—	—	—	140	157	156
Miscellaneous						
Electric power production	211	211	190	196	194	177
<b>Factory Employment and Payrolls§</b>						
Employment						
Pacific Coast	95	97	95	93	92	93
California	106	107	105	104	104	103
Oregon	86	89	81	82	80	77
Washington	78	79	81	76	74	79
Payrolls						
Pacific Coast	91	94	87	91	89	87
California	101	102	96	101	100	96
Oregon	87	91	80	83	79	76
Washington	72	77	72	72	69	72

\*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.

The south central part of Oregon and the Hood River Valley in the north central part of the State contain a good deal of irrigated land, but most Oregon crops depend upon rain and snowfall for moisture. In Utah, where about a third of the crop land is under irrigation, the more important areas are pretty well scattered throughout the central and southwestern parts of the State. The Wenatchee, Yakima, and Okanogan River valleys in central Washington are the principal irrigated land sections of that State, which has a smaller percentage of crop land under irrigation than any other state of the district. Over 80 percent of the irrigated land acreage within this district is located in the intensively farmed areas specified. Crop yields and the value of commodities produced per acre are generally much greater than in nonirrigated sections.

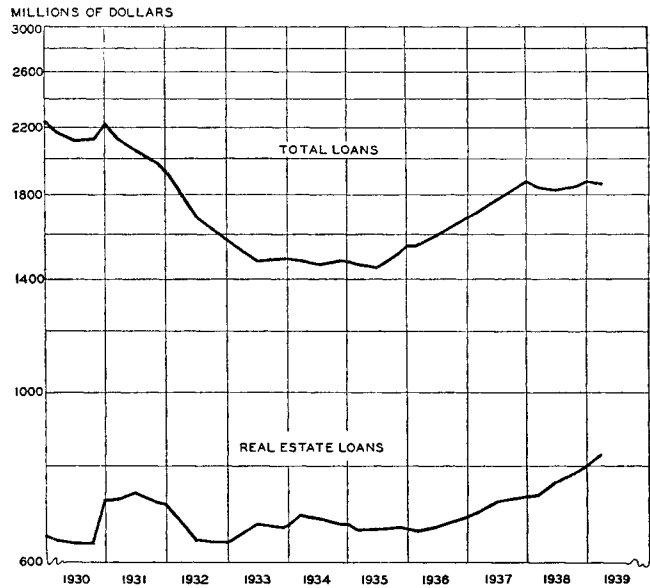
CREDIT

Total loans of district city banks during late March and the three weeks ending April 19 continued the decline in evidence since the first of the year. This reduction came principally in loans for commercial, industrial, and agricultural purposes and was largely seasonal in character. Loans on real estate increased further, continuing the persistent growth which has been under way for more than a year. Most other classes of loans remained about unchanged, although loans included in the "other" classification advanced moderately to the levels prevailing at the beginning of 1939. This miscellaneous group of loans consists largely of consumer instalment loans and advances for modernization and repair of residential properties, made under Title I of the National Housing Act.

The decline since the first of the year in loans at offices of member banks located in the principal cities of the district extended also to banks and branches located in smaller cities and towns. Loans of all district member banks on March 29 amounted to \$1,850,000,000, compared with \$1,869,000,000 on December 31, 1938.

As shown in the accompanying chart, aggregate loans of district member banks declined during the first quarter of 1938, the decline extending through the first half of

the year. In the second half, however, loans expanded considerably and at the close of the year were unchanged from the total reported at the end of 1937. While the aggregate volume of loans at the beginning of 1939 was about the same as a year earlier, the composition of the total was altered considerably. Loans on real estate increased sharply from \$730,200,000 on December 31, 1937 to \$797,800,000 at the end of 1938. Of the latter total, \$96,000,000 comprised advances secured by farm lands, \$508,800,000 was secured by residential properties, and \$193,000,000 by other properties. The proportion of total loans secured by real estate advanced from 39.0 percent at the end of 1937 to 42.7 percent at the end of 1938. In the first quarter of 1939, a further gain in



LOANS OF ALL MEMBER BANKS—Twelfth District  
Call report data; March 29, 1939, figures preliminary. Logarithmic vertical scale; that is, equal vertical distances measure equal percentage changes rather than absolute amounts.

real estate loans was accompanied by a decrease in other loans to customers, with the result that loans secured by real estate represented 44.6 percent of total loans of Twelfth District member banks on March 29. In comparison, less than 30 percent of all loans reported by district member banks in 1929 consisted of loans on real estate.

Not only have real estate loans shown a net expansion over the past ten years but there has also been a substantial decline in demand for bank credit for commercial, industrial, and shorter term agricultural purposes. (In part, this decline in private bank credit has reflected a shift in borrowing to agencies of the Federal Government.) To some extent, the reduction in commercial, industrial, and agricultural loans of member banks has been offset by the development of new loan outlets. Among the more important of the new loan outlets has been the financing of consumer purchases of automobiles and of household appliances on an instalment basis. Personal instalment loans for a diversity of other purposes have also been made in an increasingly large volume since about 1934. Loans of this character, which were relatively unimportant a decade ago, constituted a large percentage of the \$323,900,000 reported by district member banks as "all other loans" on December 31, 1938.

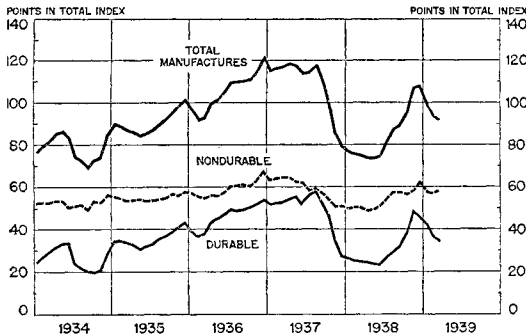
Distribution and Trade—

Index numbers, 1923-1925 average=100	With Seasonal Adjustment			Without Seasonal Adjustment		
	1939	1938	1938	1939	1938	1938
	Mar.	Feb.	Mar.	Mar.	Feb.	Mar.
<b>Retail Trade</b>						
Department store sales (value)*						
Twelfth District	93	94	89	84	79	81
California	97	99	94	89	84	86
Los Angeles	92	89	88	85	78	82
Bay Region	102	108	99	91	91	88
San Francisco	100	105	99	89	90	87
Oakland	110	118	107	98	95	94
Pacific Northwest	77	72	72	68	56	64
Seattle	87	81	80	75	64	69
Salt Lake City	74	88	74	65	70	63
Department store stocks (value)†	65	65	66	67	63	68
Furniture store sales (value)*‡	73	74	68	66	67	61
Furniture store stocks (value)‡	70	69	74	70	66	74
Automobile sales (number)*						
Total	—	—	—	84	75	72
Passenger	—	—	—	77	69	64
Commercial	—	—	—	163	137	150
<b>Carloadings (number)*§</b>						
Total	80	81	76	74	67	71
Merchandise and misc.	94	94	86	87	78	80
Other	62	64	63	58	53	59
<b>Intercoastal Traffic (volume)</b>						
Total	69	60	53	68	53	53
Eastbound	57	52	45	53	46	42
Westbound	110	86	86	116	78	78

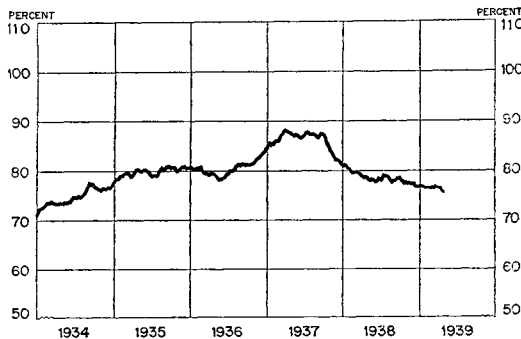
\*Daily average. †At end of month. ‡1929 average=100. §Revised series.

## Summary of National Business Conditions

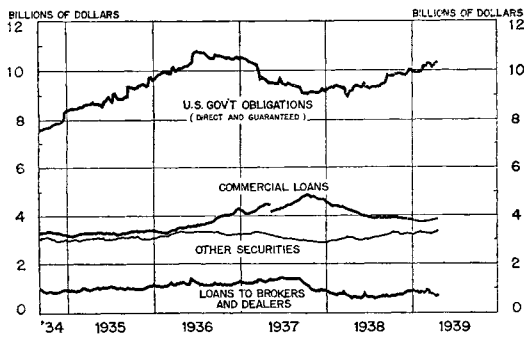
Prepared by the Board of Governors of the Federal Reserve System



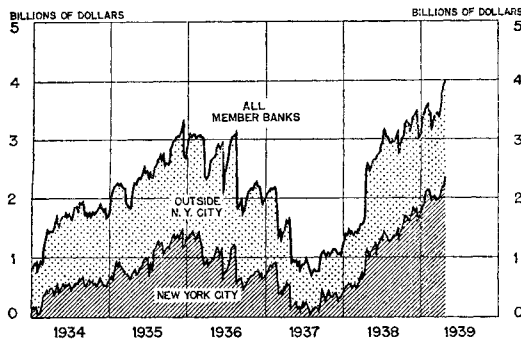
**MANUFACTURING PRODUCTION**  
Index of physical volume of production, adjusted for seasonal variation, 1923-1925 average=100. Durable and nondurable series expressed in terms of points in the total index. By months, January 1934 to March 1939.



**WHOLESALE PRICES**  
Indexes compiled by the United States Bureau of Labor Statistics, 1926=100. By weeks, 1934 to week ending April 15, 1939.



**MEMBER BANKS IN 101 LEADING CITIES**  
Wednesday figures for reporting member banks in 101 leading cities, September 5, 1934, to April 19, 1939. Commercial loans, which include industrial and agricultural loans, represent prior to May 19, 1937, so-called "Other loans" as then reported.



**EXCESS RESERVES OF MEMBER BANKS**  
Wednesday figures of estimated excess reserves for all member banks and for selected New York City banks, January 3, 1934, to April 19, 1939.

**I**N APRIL manufacturing production was maintained at about the same rate as in March but mineral production declined, reflecting a sharp reduction in output of bituminous coal pending settlement of negotiations between operators and miners. In the first quarter of this year industrial output, after a rapid rise in the latter half of 1938, increased less than is usual at this season.

### PRODUCTION

Volume of industrial production showed little change in March, and the Board's seasonally adjusted index remained at 98 percent of the 1923-1925 average. The index for the first quarter averaged 99, compared with 101 in the final quarter of last year. Activity at steel mills in March was at 54 percent of capacity, a slightly higher level than in January and February. Automobile production increased less than seasonally. Retail sales of cars continued to fluctuate around a level considerably higher than last year but lower than in 1936 and 1937. Dealers' stocks of new cars began to decline in March, following an increase to a seasonally high level. Activity in the machinery industries increased further in March, continuing the rise that began last summer. Lumber production increased less than seasonally from the relatively low level of other recent months. Production of nondurable goods in March continued at about the level that has prevailed since last autumn. In the woolen textile industry, activity showed a decrease from the high level of recent months, while at cotton mills and shoe factories output was maintained in large volume. At meat-packing establishments and sugar refineries increases in activity were reported, following earlier declines. Value of construction contract awards increased in March, according to F. W. Dodge Corporation figures, reflecting a seasonal rise in residential and other private building. Awards for public projects showed little change. In the first three weeks of April bituminous coal production declined to a low level as most mines were closed, pending the settlement of biennial contract negotiations between mine operators and workers. Steel ingot production was reduced somewhat, averaging about 52 percent of capacity, and automobile production showed little change from the rate reached in the latter part of March.

### DISTRIBUTION

Sales at department stores and mail order houses increased somewhat more than seasonally in March, while variety store sales showed about the usual rise. For the first quarter as a whole retail sales were in about the same volume as in the final quarter of 1938, after allowance for seasonal changes. Freight-car loadings showed less than the customary advance from February to March as loadings of coal declined and shipments of miscellaneous freight increased less than seasonally. In the first half of April there was a marked decrease in freight traffic, reflecting in large part a sharp decline in coal shipments.

### COMMODITY PRICES

Prices of steel scrap, copper, hides, and some other industrial raw materials declined from the middle of March to the third week of April, and there were decreases also in prices of livestock and dairy products. Silk prices rose considerably. The general level of wholesale prices, as measured by the index of the Bureau of Labor Statistics, declined to 76 percent of the 1926 average as compared with 77 in the middle of March and at the beginning of the year.

### BANK CREDIT

Reflecting continued heavy gold imports and Treasury disbursements from its balances at the Reserve banks, member bank reserves and deposits increased sharply during the four weeks ending April 19. Excess reserves rose to a record high level of \$4,000,000,000. Total loans and investments at banks in 101 leading cities, which had shown little change during March, increased somewhat during the first three weeks of April, reflecting principally continued purchases of United States Government obligations by New York City banks. Loans to brokers and dealers in securities declined.

### MONEY RATES AND SECURITY PRICES

Prices of Government bonds and of other bonds of highest grades continued firm at high levels during March and the first three weeks of April, while prices of the lower-grade corporate bonds and of corporate stocks declined. The average discount rate on new issues of 91-day Treasury bills continued at a low level and other open market rates remained unchanged.