

MONTHLY REVIEW

BUSINESS CONDITIONS IN THE TWELFTH FEDERAL RESERVE DISTRICT

Federal Reserve Bank of San Francisco

June 1, 1939

THERE was little perceptible change in the general state of Twelfth District business during April or early May. Industrial production remained about the same as in March, after allowance for seasonal influences, and retail trade was maintained at about the levels of the preceding month. Factory employment and payrolls in the three Pacific Coast states declined slightly during April, after allowance for seasonal factors. Value of residential building permits was slightly lower in April and May than in March, but the general level of residential construction continues higher than in any other period of the past decade.

INDUSTRY

On a seasonally adjusted basis, industrial output was somewhat lower in April than in the winter months, but with few important exceptions production was substantially higher than a year ago.

Value of permits issued for new residential building was slightly lower in April than in March and this bank's adjusted index declined 2 points to 52 percent of the 1923-25 average. At that level, however, it was as high as last December, and higher than in any month previous to December since 1929. The small April downturn occurred principally in southern California, where new residential construction has recently been exceptionally active. Incomplete data for May indicate that the district index will remain close to the April level in that month.

After declining in February and March, lumber production increased more than is usual in April and May. Increased activity was in response to an advance in new orders which began early in March. On May 13, mill quotations on Douglas fir items in mixed cars for rail shipments direct to the trade averaged slightly higher than a month earlier.

The rate of output of the district aircraft industry appears to have attained an all time peak during the past few months. With the receipt of large new orders and the prospect of further large orders, most of the district's major plants have stepped up operations since the first of this year. As a result, operations are less uneven than they were in the latter part of 1938, when several plants were operating at or near capacity with others only moderately active and some relatively inactive. At some plants, however, there still exists a large amount of unused capacity. Employment of wage earners in the industry declined considerably last year, owing chiefly to increasing output per man-hour. Late in 1938, however, with rising production, employment turned upward and has now re-attained the former peak figure. Despite the high rate of operations, there has been only a small amount of plant

expansion since 1937, with the exception of one important plant which has extended its productive facilities considerably since mid-1938. Contemplated construction in California of several relatively small plants by new companies has been announced recently.

Activity at district automobile plants, which had undergone substantial declines from January through March, receded slightly further in April, according to available information. Furniture plants continued active at rates averaging moderately higher than a year ago. Trade comment indicates that sales and production of wood pulp currently show little, if any, improvement over the depressed levels reported during most of 1938.

District flour mills have received a considerable volume of orders for export, largely to the Orient, in recent months, and unfilled export orders held by mills in mid-April were reported to be higher than in many years. During the first four months of 1939 shipments to China from Pacific Northwest ports totaled 855,000 barrels, or 41 percent of total cargo shipments of flour from those ports. During the corresponding 1938 period shipments to China aggregated 78,000 barrels, or 6 percent of the total. Milling activity advanced substantially in April to the highest level for that month since before 1923, when monthly data for this district first became available. Output for the first four months as a whole was likewise higher than in any corresponding period since before 1923. In May, contracts for erection of a flour mill in Spokane, expected to cost about \$700,000, were awarded.

After advancing slightly during the latter half of 1938, the number of wage-earners employed in district mills and factories has not shown much change since December, allowing for the customary small seasonal increases. Total wages paid were somewhat lower in April than in March, and were considerably lower than last December when output and working hours were higher than currently. In comparison with April of last year, employment this year was 4 percent higher and payrolls averaged 6 percent higher.

TRADE

Consumer purchases of most commodities for which information is available displayed about the usual seasonal changes during April. New automobile sales, which had declined markedly earlier in the year, increased seasonally in that month. Viewed broadly, retail commodity sales appear to have been well maintained since early in 1938, although the moderate advances apparent last autumn have more recently tended to slow down or cease entirely.

AGRICULTURE

Total farm cash income in the Twelfth District, including receipts from Federal commodity loans, export subsidies, and Government benefit payments, has been somewhat larger through April this year than in the first four months of 1938. Prices received by farmers for their products have in general tended to increase in recent weeks, while marketings of seasonal products have been earlier and the aggregate volume of all farm products sold thus far this spring has been slightly larger than a year ago. The increase in cash receipts of farmers has not been general throughout the district. In fact, the gain in the total for the seven western states is accounted for entirely by the Pacific Northwest, where combined receipts from marketings of wheat and Federal loans on wheat, as well as income from the sale of apples, potatoes, and livestock, have been larger than in the first four months of 1938. Elsewhere in the district gross farm income has been lower than a year ago.

Spring sown grain and field crops and deciduous fruits are being affected unfavorably by inadequate moisture. Earlier estimates of probable crop yields in unirrigated sections of the district were reduced in April and unirrigated pastures and livestock ranges at lower altitudes are dry in many localities. Irrigated crops, orchards, and pastures, however, are in good condition. Insect infestation is reported by growers throughout the district to be greater than usual this year.

California spring lambs were moved to eastern and mid-western markets in heavier volume and at an earlier date this year than last. Out-of-state shipments through May 20 are estimated at about 571,000 head or 87,000 more than had been shipped by June 15, 1938. An active demand for both feeder and slaughter lambs made it possible for growers to dispose of entire bands regardless of finish. Slaughter lambs comprised a much smaller than

usual proportion of the total number marketed this season, and were lighter in weight and of poorer quality than in other recent years. Prices per head received by growers, however, have averaged higher than last season.

Estimates of probable output of the principal deciduous fruits grown in the district are still tentative. In the case of the California apricot crop, harvesting of which began late in May, reports indicate that if there is sufficient moisture to mature the fruit properly in unirrigated sections, output will be considerably larger than in 1938 and may approximate the record production of over 300,000 tons harvested in 1937.

California usually accounts for more than 95 percent of the entire apricot crop grown in the United States and for well over half the total world output. Gross income of growers in California has varied widely from year to year during the past decade. In 1929, a large crop was sold at high prices, yielding growers a peak return of \$13,500,000, while in 1932 a depression low of \$4,600,000 was reported. On the average, farm income from apricots has approximated \$8,500,000 during recent years.

PRODUCTION, UTILIZATION, AND FARM VALUE OF APRICOTS—

Years or average of years	Production (tons)	Utilization			Farm Price (dollars per ton)	Farm Value (dollars)
		Dried (tons)	Canned (tons)	Consumed Fresh (tons)		
1922-26	168	108	44	16	50	3,476
1927-31	215*	144	49	20	47	9,909
1932-36	228*	162	44	19	35	7,879
1936	248	177	53	18	38	9,424
1937	311	189	101	21	37	11,507
1938p	176	127	27	22	35	6,160

*Includes fruit unharvested, totaling 8,300 tons in 1930; 4,000 tons in 1931; and 13,000 tons in 1932. p Preliminary.
Source: California State Department of Agriculture and Giannini Foundation, University of California.

As indicated in the accompanying table, apricot production in California fluctuates considerably, but the trend has continued upward during the past decade despite a reduction in bearing acreage. In the late twenties, bearing acreage reached a peak of approximately 83,000 acres and has since been reduced to about 75,000 acres, owing principally to abandonment of poorer orchards. Expansion of output during a period of contraction in acreage is explained by the fact that an increasing proportion of the trees have been reaching maximum bearing age.

Apricots are quite perishable and are poorly adapted to shipment to distant markets as fresh fruit. Consequently, most apricots are dried or canned for marketing. In recent years about 65 percent of the crop has been dried and an additional 25 percent has been canned. Of the remainder, the bulk has been marketed locally as fresh fruit, only a small portion having been shipped to eastern and mid-western centers.

Foreign markets constitute an important outlet for both dried and canned California apricots. More than 45 percent of the dried output has been exported in each year of the past decade except in 1929. In that year, 43 percent of the dried output was exported and the proportion has ranged as high as 52 percent in 1935. Exports of canned apricots have likewise been large, although the proportion of the pack sold abroad has declined during the past few years. In the five crop years ending May 31, 1938, exports averaged 16 percent of the canned pack.

Production and Employment—

Index numbers, 1923-1925 average=100	With Seasonal Adjustment			Without Seasonal Adjustment		
	1939	1938	Apr.	1939	1938	Apr.
Industrial Production*						
Manufactures (physical volume)						
Lumber	71	69	58	76	64	62
Refined oils	—	—	—	164	153	159
Cement	—	101	70	—	102	74
Meat	106	116	109	—	—	—
Wheat flour	148	121	117	131	118	103
Minerals (physical volume)						
Petroleum	—	—	—	93	94	109
Construction (value)						
Residential building permits†						
Twelfth District	52	54	36	59	62	42
Southern California	59	63	39	65	72	43
Northern California	41	42	33	50	51	40
Oregon	30	22	20	37	32	24
Washington	41	37	25	51	43	31
Intermountain states	83	93	66	97	83	78
Public works contracts	—	—	—	129	140	106
Miscellaneous						
Electric power production	205	211	182	202	196	179
Factory Employment and Payrolls‡						
Employment						
Pacific Coast	95	96	92	95	93	92
California	107	106	103	106	104	102
Oregon	85	88	78	86	83	78
Washington	75	78	75	78	77	77
Payrolls						
Pacific Coast	90	92	86	92	91	87
California	101	101	97	101	101	97
Oregon	81	87	74	83	83	75
Washington	71	73	66	76	73	70

*Daily average.

†Includes figures from 197 cities and Los Angeles County, unincorporated.

‡Excluding fruit and vegetable canning.

BANKING AND CREDIT

Reserve balances of member banks in the Twelfth District advanced further during the five weeks ending May 24, continuing the expansion which began early in March. The increase in reserve balances during the five week period amounted to \$9,500,000, and brought the total on May 24 to \$566,468,000.

Operations of the United States Treasury were entirely responsible for the increase in reserves during the past five weeks, as has been the case during most of the past decade. Since 1930, disbursements of the Federal Government in the Twelfth District have customarily exceeded Treasury collections in this region from all sources, including taxes, payments of interest and principal on loans made by Government agencies, sales of Government securities to district purchasers, and the like. To meet the excess disbursements, transfers of funds have been made by the Treasury to the Twelfth District from other parts of the United States. When the Treasury disburses the funds transferred in from other districts, there is a net addition to reserves and deposits of banks in this district.

In the five weeks ending May 24, the additions to district bank reserves and deposits coming from Treasury operations amounted to \$50,100,000. Other factors, however, particularly net payments of \$35,700,000 to other districts in connection with commercial and financial transactions, drew down member bank reserves, and the net increase in reserves over the five weeks was only \$9,500,000. The accompanying table shows the amount of net Treasury additions to district bank reserves, of net commercial and financial payments to other districts, and of net changes in district bank reserves, by years since 1929, and during the first five months of this year.

The fact that United States Treasury operations during recent years have had the effect of adding to the reserves of member banks in the Twelfth District stands in sharp contrast to the general effect of Treasury operations upon the reserves of member banks in the United

States as a whole. When the entire banking structure of the country is considered, Treasury operations may exert at most only a temporary influence upon the aggregate volume of bank reserves, even during periods of heavy deficit financing. That is, when the Federal Government sells securities to banks to meet deficit expenditures, the banks pay for the securities by drawing down their reserve balances. Banks have, in other words, then replaced

CHANGES IN MEMBER BANK RESERVES AND PRINCIPAL FACTORS CAUSING CHANGES—TWELFTH DISTRICT
(in millions of dollars)

	U. S. Treasury Operations	Commercial Operations	Reserve Balances
1929	+ 23	0	— 10
1930	+ 89	— 53	+ 7
1931	+152	—162	— 36
1932	+241	—178	— 4
1933	+145	—103	+ 43
1934	+270	—202	+ 70
1935	+207	—154	+ 32
1936	+454	—227	+191
1937	+157	— 90	+ 70
1938	+276	—240	+ 16
1939 { Jan. 1 - Apr. 19	+ 10	— 27	— 8
{ Apr. 19 - May 24	+ 50	— 36	+ 10

Note. Changes in reserve bank credit and in demand for currency, both of which affect member bank reserves, are not shown. They would account for most of the changes in member bank reserves not shown by Treasury and commercial operations.

cash reserves with an earning asset—Government securities. When the Federal Government disburses the funds received from its securities sales, the Government checks are promptly deposited in banks, resulting in increased deposits and increased cash items. When the cash items (Government checks) are presented to the Reserve bank for payment, the member bank receives credit in its reserve account, and the Treasury's checking account at the Reserve bank is charged accordingly. This payment of the Treasury checks thus restores aggregate member bank reserve balances to the level that existed before the Government sold the aforementioned securities. The position of member banks as a group, as compared with their position before the Government securities were sold, is one of increased earning assets in the form of Government securities, and of increased deposit liabilities to individuals, businesses, and the like. Other items in the composite balance sheet of banks have not been changed by the Government deficit financing. Because of the increased deposit liabilities, reserve requirements have been increased, and under conditions such as have existed in recent years, the volume of *excess* reserves has accordingly been reduced.

In sum, it may be said that Government deficit financing does not change the total volume of bank reserves of the United States as a whole, but it does reduce the volume of excess reserves. In the Twelfth District, however, an excess of Federal Government disbursements over collections results in an addition to local bank reserves, the additional reserves being drawn from banks in other localities where the Treasury collects more than it pays out. Similarly, in any other region in which the Federal Government consistently disburses more than it collects, Treasury operations add to reserves of banks in that locality. Conversely, in an area in which the Federal Government collects more than it spends—New York is the principal example—Treasury operations serve to reduce bank reserves.

Distribution and Trade—

Index numbers, 1923-1925 average=100	With Seasonal Adjustment— 1939 1938			Without Seasonal Adjustment— 1939 1938		
	Apr.	Mar.	Apr.	Apr.	Mar.	Apr.
Retail Trade						
Department store sales (value)*						
Twelfth District	92	93	91	90	84	90
California	96	97	96	93	89	94
Los Angeles	93	92	91	88	85	87
Bay Region	98	102	100	96	91	99
San Francisco	94	100	97	92	89	96
Oakland	113	110	114	107	98	110
Pacific Northwest	75	77	72	75	68	72
Seattle	85	87	79	85	75	79
Salt Lake City	74	74	77	71	65	75
Department store stocks (value)†	64	65	65	67	67	68
Furniture store sales (value)*‡...	78	73	70	71	65	65
Furniture store stocks (value)†‡...	68	70	71	70	70	74
Automobile sales (number)*						
Total	—	—	—	99	95	78
Passenger	—	—	—	92	88	71
Commercial	—	—	—	169	166	154
Carloadings (number)*§						
Total	86	79	75	84	74	73
Merchandise and misc.	96	93	85	90	87	80
Other	74	62	62	75	58	63
Intercoastal Traffic (volume)						
Total	63	69	48	62	68	47
Eastbound	52	57	40	49	53	37
Westbound	100	110	73	106	116	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

VOLUME of industrial production declined sharply in April, reflecting chiefly shutdowns at bituminous coal mines and reduction in activity at textile mills. Retail purchases by consumers were maintained.

PRODUCTION

In April, the Board's seasonally adjusted index of output at factories and mines was at 92 percent of the 1923-1925 average, compared with 98 in March and 77 a year ago.

In the steel industry, production declined in April and the first three weeks of May, but in the fourth week ingot output increased to 48½ percent of capacity, about the rate prevailing a month earlier. Around the middle of May substantial concessions were made in prices of some types of steel and it is reported that a considerable volume of orders for steel was placed during this period.

Automobile production in April was at about the same rate as in March, although there usually is some increase, and in May output declined, owing in part to the fact that stocks of new cars were larger than is usual at this time of the year. Plate glass production decreased sharply in April, following smaller declines earlier in the year.

In the lumber industry, output increased somewhat in April, while cement production, which had risen sharply in February and March, showed less than the usual increase.

Textile production declined sharply in April, particularly at woolen mills, where output had been at a high level, and in the silk goods industry, where further curtailment reflected in part recent high prices for raw silk. Output of shoes showed a decrease from the high level maintained during the first quarter of this year. At flour mills and sugar refineries, activity increased further, while in most other nondurable goods lines changes in output were largely seasonal in character.

Bituminous coal production was in small volume during April and the first half of May as most mines were closed pending settlement of contract negotiations between mine operators and workers. After the middle of May agreements were reached at most mines and output began to increase rapidly. Production of anthracite, which had been reduced in March, increased sharply in April and crude petroleum production rose further. In the first half of May anthracite production was maintained but petroleum output declined somewhat.

Value of construction contracts awarded, according to the F. W. Dodge Corporation, was larger in April than in March, owing chiefly to a rise in awards for public projects. Contracts for private construction showed little change in the aggregate as private residential contracts declined, contrary to seasonal tendency, while contracts for commercial, factory, and other private construction increased. In the first half of May, awards for private work increased somewhat while the volume of public contracts declined.

EMPLOYMENT

Employment in nonagricultural pursuits declined somewhat from the middle of March to the middle of April, reflecting a sharp drop at bituminous coal mines offset in part by seasonal increases in construction and trade. At factories, the number employed showed little change, while payrolls declined considerably because of fewer hours of work.

DISTRIBUTION

In April, distribution of commodities to consumers showed about the usual seasonal increase. The Board's adjusted index of department store sales remained at 88 percent of the 1923-1925 average, about the level that has prevailed since last autumn.

Railroad freight-car loadings declined sharply owing mainly to a reduction in shipments of coal. Loadings of miscellaneous freight showed less than the usual seasonal rise.

COMMODITY PRICES

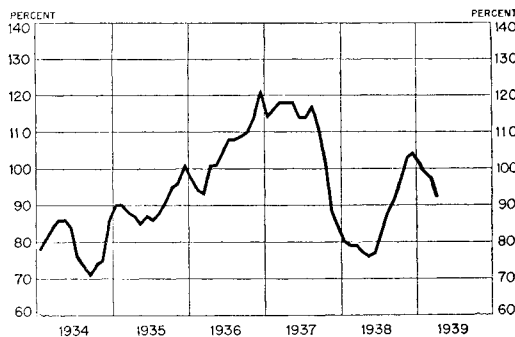
Prices of grains and cotton advanced from the middle of April to the third week of May and there were also increases in prices of silk, hides, and bituminous coal. Prices of copper and steel scrap, on the other hand, were reduced and substantial concessions were granted in prices of several leading steel products.

BANK CREDIT

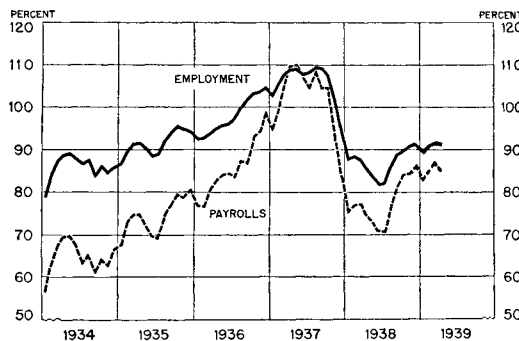
Total loans and investments at reporting member banks in 101 leading cities, which had increased in April, declined during the first half of May. The decline was at New York City banks and reflected a reduction in loans to security brokers and dealers and redemption of obligations of New York state and city Governments. After increasing substantially in April, demand deposits at banks in leading cities showed little change in the first half of May. Bank reserves increased further in May to a new high level.

MONEY RATES

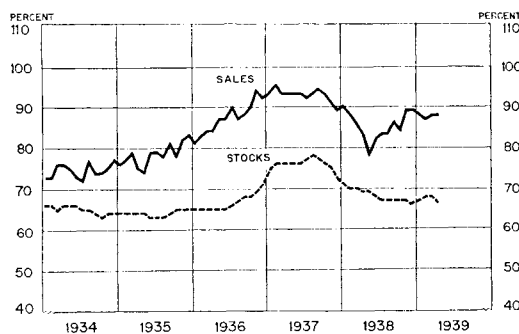
Prices of United States Government bonds and notes increased sharply during the last half of April and the first three weeks of May to new high levels. The average yield on long-term Treasury bonds declined from 2.34 percent on April 11 to 2.13 percent on May 22. Other money rates showed little change.



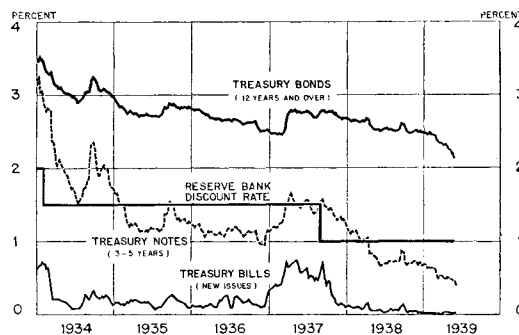
INDUSTRIAL PRODUCTION
Index of physical volume of production, adjusted for seasonal variation, 1923-1925 average=100. By months, January 1934 to April 1939.



FACTORY EMPLOYMENT AND PAYROLLS
Indexes of number employed and payrolls, without adjustment for seasonal variation, 1923-1925 average=100. By months, January 1934 to April 1939.



DEPARTMENT STORE SALES AND STOCKS
Indexes of value of sales and stocks, adjusted for seasonal variation, 1923-1925 average=100. By months, January 1934 to April 1939.



MONEY RATES IN NEW YORK CITY
For weeks ending January 6, 1934 to May 20, 1939.