

# MONTHLY REVIEW

## BUSINESS CONDITIONS IN THE TWELFTH FEDERAL RESERVE DISTRICT

*Federal Reserve Bank of San Francisco*

*August 1, 1939*

**A**FTER declining slightly in the first four months of the year, business volumes in the Twelfth Federal Reserve District turned upward in May and were well maintained at the higher levels in June and July. Measures of industry and trade are generally higher than a year ago, but they are still somewhat lower than the best levels recorded late last fall.

Outputs of lumber, automobiles, furniture, copper, and flour were about the same in June as in May, while activity at aircraft plants, motion picture studios, and petroleum refineries increased. Crude oil production was reduced further in June, under the voluntary curtailment program, but daily average output rose somewhat in the first half of July. Canning of fruits and vegetables increased sharply in June and July, as is customary in those months. Estimates are not yet available for the size of this year's packs. It is expected, however, that they will generally equal or exceed the 1938 packs but be smaller than the large production of 1937.

Factory employment and payrolls, which usually are about the same in June as in May in Pacific Coast states, increased further in June of this year. To a considerable extent this increase was a reflection of continued expansion in activity at aircraft plants.

Retail trade was maintained during June at about the level to which it had risen in May. Department store sales were unchanged, allowing for seasonal influences, while sales of apparel stores, of groceries, and of building materials resisted the decreases customary in those lines in the early summer. Seasonally adjusted furniture store sales, which had increased considerably in recent months, were lower in June than in May but remained above the level of any other month since January. Sales of new automobiles increased further in June following a sharp advance in May, but the June increase was not as large as has been customary in that month.

### AGRICULTURE

Crop prospects in the Twelfth District improved during June, reflecting timely rains and warm but not excessively hot weather. Harvests this season are expected to be smaller than the bumper crops of 1937 and 1938 but larger than average output during the ten years 1928-1937. Except in the higher elevations of Oregon and Washington, the condition of livestock and livestock ranges declined more than usual in June, and is currently not much better than in the drought year of 1934. Cash farm income during May and June continued to exceed that of a year ago, owing to markedly higher Federal Government benefit payments, but for the first half of 1939 returns were 12 percent lower than in the like period of 1937.

Total acreage of the principal grain and field crops is about the same this year as in each of the preceding two years, although some important shifts in acreage have taken place. Reflecting adjustments under the A.A.A. program and unfavorable weather conditions at planting

time, wheat acreage was sharply curtailed this year, while acreage planted to beans, cotton, hops, and rice was reduced moderately. On the other hand, acreage devoted to barley, flax, oats, and potatoes is larger than a year ago. Yields are expected to be below normal, and total production of grain and field crops will be smaller than in 1938 but larger than the average of recent years. The important district wheat crop, estimated at 89,218,000 bushels, will be about 30 percent smaller than the near-record harvest of 125,917,000 bushels last year, and 16 percent smaller than the average annual output of 106,499,000 bushels during the ten years 1928-1937. Flax, a relatively new crop to this district, is showing the largest percentage increase in probable output. The crop now being harvested is expected to total 1,760,000 bushels, compared with 1938 production of 684,000 bushels.

Deciduous fruit and nut growers are again expecting bountiful harvests. While the grape and pear crops probably will be smaller than the near-record crops harvested in 1938, they will be well above the average of recent years. Almond, apricot, cherry, and walnut crops are of record size, and output of all deciduous fruits except prunes will probably exceed the 1928-1937 average.

With record lemon and grapefruit crops now being harvested, total production of citrus fruits this season is expected to be only slightly smaller than the record output in 1938, and to be 34 percent larger than the average volume harvested from 1928 through 1937. Two years of heavy production in this district, along with large crops in Florida and Texas, have depressed prices of most citrus fruits to extremely low levels. Reports from well informed sources state that, from the standpoint of net returns, this will probably be one of the poorest years yet experienced by citrus growers in this district.

### CREDIT AND BANKING

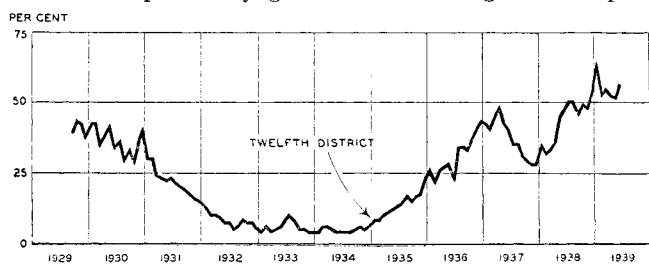
The moderate but persistent decline in loans for commercial, industrial, and agricultural purposes reported by district city banks since last October continued during June and the first three weeks of July. This decline both in recent weeks and in the period since last fall was accounted for almost entirely by banks in San Francisco, although banks in Los Angeles have contributed to the reduction in the total over the past six months. In Portland, Seattle, Spokane, and Salt Lake City, loans for business purposes were somewhat higher in mid-July than six months earlier. Real estate loans of city banks, which had shown an almost uninterrupted growth since March 1938, were unchanged during June and July. Investments increased further during recent weeks, principally because of a gain in holdings of securities other than obligations of the United States, and in late June and July were larger than at any previous time.

Demand for currency increased sharply in the Twelfth District immediately prior to the Fourth of July holiday. Demand customarily increases at this time of year as depositors withdraw coin and currency to meet their holi-

day requirements, but this year the increase was unusually large reflecting the fact that Monday, July 3, was declared a legal holiday in California and Idaho. In the two weeks ending July 19, much of the coin and currency withdrawn prior to the holiday was returned to banks.

### Residential Building

The record of residential building in about 200 cities and counties of the Twelfth Federal Reserve District is shown for recent years in the accompanying chart. It has been a comparatively good record throughout the past



**RESIDENTIAL BUILDING PERMITS—Twelfth District**  
Index of value of permits, adjusted for seasonal variation.  
(1923-1925 average=100).

year, with activity at a higher level than at any time in more than a decade. More recently, building operations have been somewhat lower than in the first quarter of this year. A sharp rise in the index of permits during June was followed, according to preliminary figures, by a decline in July to a point slightly below any month since last fall.

Changes in building over the past 18 months have not been uniform in degree or in timing in various parts of the district. In the district as a whole, marked expansion in the first half of 1938 followed the slump that occurred from April to December of 1937. That recovery was much more rapid in California than in other parts of the district, and by mid-1938 indexes for both northern and southern California were at higher levels than in any period since 1929. Considerable expansion also took place in the Pacific Northwest and in the Intermountain region but, as will be seen by looking at the second chart, more important growth in both those sections came in the second half of the year. The large rise in the index for the Pacific Northwest in July 1938 resulted from permits totaling about \$1,000,000 in connection with the Madison Point rental project in Seattle, the loan for which was insured under section 207 of the National Housing Act.

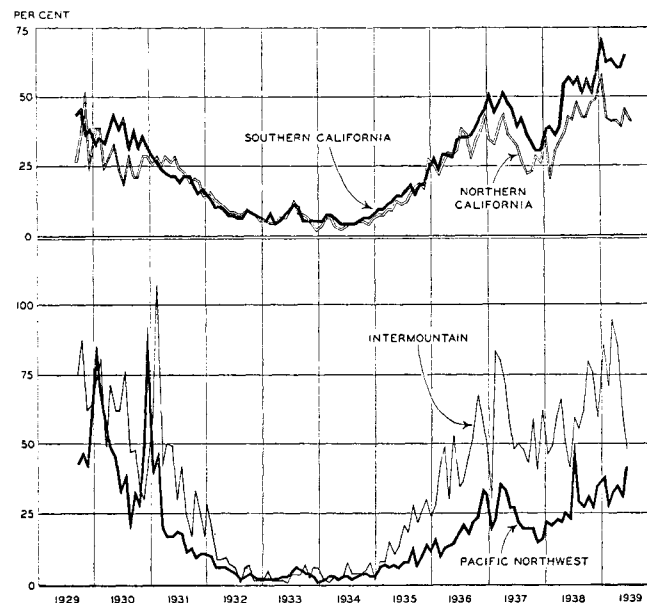
In the first six months of 1939, value of permits for residential building rose further to a level somewhat above the second half of 1938. This reflected greater activity in southern California and a considerable increase in the Pacific Northwest, accompanied by comparative stability or some decline in northern California and the Intermountain region.

New residential building in the past 18 months has been concentrated to an unusual extent in single family dwellings selling for \$6,000 or less. In and around Los Angeles, however, a considerable amount of building of 3 to 20 unit apartments has taken place and one large scale rental project (Wyvernwood), financed under section 207 of the National Housing Act, is under construction. Most of the money that has financed the 3 to 20 unit multi-family dwellings has come outside the insured

mortgage. Trade reports indicate an increasing concern that apartment facilities are in process of becoming overbuilt in that area, a factor which may explain some of the decrease in the number and value of permits for apartments and flats in Los Angeles in June.

### OCCUPANCY AND RENTALS

Apartment vacancies in the principal population centers of the district have been rising during the past year. While in no locality has the increase been severe, it has been most pronounced in Los Angeles with the likelihood of a further rise as sections of the Wyvernwood project are completed and opened for occupancy during the next few months. In Salt Lake City, apartment vacancies have likewise shown a relatively pronounced increase, while the rise has been more moderate in the San Francisco Bay region and in Portland and almost negligible in Seattle, where vacancies were already comparatively high. Reflecting this development, apartment rentals in Los Angeles and Salt Lake City have declined over the past year. Apartment rentals have also tended to decrease in San Francisco but have remained relatively firm in Portland and Seattle. The tendency of apartment vacancies to increase during the past year is associated with the movement of families from apartments to new single family houses, and, in Los Angeles, a considerable increase in the number of multi-family dwellings has been an added factor.



**RESIDENTIAL BUILDING PERMITS—**  
By regions in the Twelfth District  
Indexes of value of permits, adjusted for seasonal variation.  
(1923-1925 average=100).

Vacancies of single family dwellings, despite the large volume of construction during the past year, remain low in all the principal district cities and rentals generally have continued firm.

### MARKET CONDITIONS

Speculative builders, who construct a large proportion of low and moderate-priced houses, report that the market for new houses was very active, particularly in California, last fall and in the first quarter of this year. In both Los Angeles and the San Francisco Bay area, how-

ever, they report that houses have been moving noticeably less rapidly since May, even after allowance for the seasonal lull at this time. In the Pacific Northwest, where building has expanded relatively much more moderately from the depression lows, no such decline has made itself apparent.

In explanation of the somewhat thinner market for homes in California since May, builders report that the extraordinary impetus given home sales by the reduction of down payments and monthly carrying charges provided in the National Housing Act amendments of February 1938 is wearing off. That is, introduction of the "10%" down payment, with extension of the repayment period to 25 years in the case of lower priced new houses, provided a great impetus to sales during 1938 and early 1939. Reduction in the size of the required down payment enabled a large number of families with some funds already saved to buy houses without further delay. Furthermore, they were encouraged to buy because of the reduction in monthly carrying charges which, in many cases, brought purchase payments below rent for comparable quarters. The response to those easier purchase terms appears to have been more ready in California than in other parts of the district and, as might be expected, the reservoir of buyers thus introduced now seems to have been used down considerably in that State. This does not mean, however, that the influence of the Federal Housing Administration terms is no longer a strong factor in the market for homes. In fact, it seems generally agreed among builders and others engaged in selling houses that the F.H.A. terms continue to be a dominant helpful factor. At present it appears only that the effects of the introduction of the February 1938 amendments to the law may be wearing off in the principal California centers.

CONSTRUCTION AND FINANCING COSTS

During the past 18 months of revival in residential building, construction costs have been generally stable. This stability is in marked contrast with the sharp increases in costs of labor and materials in late 1936 and early 1937, a factor which contributed greatly to the slump in residential construction from April to Decem-

ber of 1937. During the latter period building materials prices decreased considerably and have since shown little change. Labor costs appear to have changed little from the high levels reached in the spring of 1937, although there was some reduction reported in areas where a considerable amount of home building employs non-union labor. Most union contracts expiring this year are being renewed on the existing basis, thus tending to stabilize labor costs at present levels. In Seattle and the San Francisco Bay region practically all construction is done with union labor, while in Los Angeles, Portland, and Salt Lake City non-union labor is widely employed in the building of houses.

With respect to the supply of skilled labor, it is clear that nowhere in the district is there an acute shortage. In the Pacific Northwest, however, a further large rise in total construction might create a shortage of efficient labor. The supply is reported to be ample in the San Francisco Bay region and abundant in Los Angeles.

Costs of insured home mortgage financing were unchanged between February 1938 and July 1939. On July 1 the insurance rate on newly constructed owner-occupancy dwellings costing \$6,000 or less, was restored to the general rate of one-half of 1 percent, in accordance with the amendments of February 1938, which had set a temporary insurance rate of one-fourth of 1 percent on that type of mortgage. Later in July, the F.H.A. announced a reduction of the maximum interest rate from 5 percent to 4½ percent, effective August 1, thus reducing the maximum over-all insurance and interest rate, which had risen from 5¼ to 5½ percent on July 1, to 5 percent.

Interest rates on non-insured mortgages are reported to have tended lower during the past year, but they generally equal or exceed the over-all financing costs under the insured mortgage, according to available information.

Distribution and Trade—

| Index numbers, 1923-1925<br>average=100 | With<br>Seasonal<br>Adjustment |      |      | Without<br>Seasonal<br>Adjustment |      |      |
|---|--------------------------------|------|------|-----------------------------------|------|------|
|   | 1939                           | 1938 | 1938 | 1939                              | 1938 | 1938 |
| <b>Retail Trade</b>                     |                                |      |      |                                   |      |      |
| Department store sales (value)*         |                                |      |      |                                   |      |      |
| Twelfth District.....                   | 97                             | 97   | 95   | 88                                | 92   | 85   |
| California.....                         | 98                             | 97   | 95   | 87                                | 91   | 85   |
| Los Angeles.....                        | 89                             | 87   | 86   | 77                                | 80   | 75   |
| Bay Region.....                         | 105                            | 105  | 102  | 95                                | 99   | 93   |
| San Francisco.....                      | 98                             | 98   | 97   | 88                                | 91   | 87   |
| Oakland.....                            | 125                            | 128  | 121  | 112                               | 124  | 109  |
| Pacific Northwest.....                  | 95                             | 96   | 92   | 89                                | 91   | 86   |
| Portland.....                           | 96                             | 95   | 93   | 92                                | 92   | 89   |
| Seattle.....                            | 98                             | 99   | 91   | 89                                | 92   | 83   |
| Spokane.....                            | 82                             | 88   | 88   | 76                                | 85   | 82   |
| Salt Lake City.....                     | 86                             | 95   | 86   | 76                                | 104  | 77   |
| Department store stocks (value)†        | 63                             | 64   | 64   | 60                                | 65   | 61   |
| Furniture store sales (value)*‡         | 77                             | 81   | 73   | 74                                | 73   | 70   |
| Furniture store stocks (value)†‡        | 66                             | 68   | 67   | 67                                | 70   | 69   |
| <b>Automobile sales (number)*</b>       |                                |      |      |                                   |      |      |
| Total.....                              | —                              | —    | —    | 112                               | 105  | 84   |
| Passenger.....                          | —                              | —    | —    | 106                               | 98   | 77   |
| Commercial.....                         | —                              | —    | —    | 171                               | 181  | 152  |
| <b>Carloadings (number)*</b>            |                                |      |      |                                   |      |      |
| Total.....                              | 84                             | 84   | 75   | 90                                | 84   | 80   |
| Merchandise and misc.....               | 95                             | 96   | 87   | 101                               | 90   | 92   |
| Other.....                              | 69                             | 68   | 59   | 77                                | 77   | 66   |
| <b>Intercoastal Traffic (volume)</b>    |                                |      |      |                                   |      |      |
| Total.....                              | 71                             | 73   | 51   | 69                                | 71   | 49   |
| Eastbound.....                          | 63                             | 66   | 43   | 58                                | 61   | 40   |
| Westbound.....                          | 101                            | 97   | 76   | 105                               | 105  | 79   |

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

Production and Employment—

| Index numbers, 1923-1925<br>average=100 | With<br>Seasonal<br>Adjustment |      |      | Without<br>Seasonal<br>Adjustment |      |      |
|---|--------------------------------|------|------|-----------------------------------|------|------|
|   | 1939                           | 1938 | 1938 | 1939                              | 1938 | 1938 |
| <b>Industrial Production*</b>           |                                |      |      |                                   |      |      |
| Manufactures (physical volume)          |                                |      |      |                                   |      |      |
| Lumber.....                             | 81                             | 81   | 63   | 93                                | 93   | 73   |
| Refined oils.....                       | —                              | —    | —    | 164                               | 151  | 142  |
| Cement.....                             | —                              | 125  | 84   | ..                                | 131  | 96   |
| Wheat flour.....                        | 154                            | 150  | 118  | 135                               | 132  | 104  |
| Minerals (physical volume)              |                                |      |      |                                   |      |      |
| Petroleum.....                          | —                              | —    | —    | 92                                | 93   | 102  |
| Lead (U. S.)†.....                      | ..                             | 82   | 64   | ..                                | 80   | 65   |
| Silver (U. S.)†.....                    | ..                             | 71   | 91   | ..                                | 69   | 89   |
| <b>Construction (value)</b>             |                                |      |      |                                   |      |      |
| Residential Building Permits‡           |                                |      |      |                                   |      |      |
| Twelfth District.....                   | 56                             | 51   | 47   | 58                                | 59   | 49   |
| Southern California.....                | 65                             | 60   | 56   | 65                                | 67   | 56   |
| Northern California.....                | 45                             | 39   | 42   | 46                                | 45   | 43   |
| Oregon.....                             | 33                             | 29   | 23   | 36                                | 36   | 25   |
| Washington.....                         | 48                             | 33   | 26   | 52                                | 45   | 28   |
| Intermountain states.....               | 48                             | 62   | 41   | 75                                | 87   | 65   |
| Public works contracts.....             | —                              | —    | —    | 187                               | 152  | 354  |
| <b>Miscellaneous</b>                    |                                |      |      |                                   |      |      |
| Electric power production.....          | 211                            | 208  | 188  | 227                               | 212  | 202  |
| <b>Factory Employment and Payrolls§</b> |                                |      |      |                                   |      |      |
| Employment                              |                                |      |      |                                   |      |      |
| Pacific Coast.....                      | ..                             | 98   | 92   | ..                                | 99   | 93   |
| California.....                         | 111                            | 109  | 105  | 111                               | 109  | 105  |
| Oregon.....                             | ..                             | 87   | 76   | ..                                | 89   | 79   |
| Washington.....                         | ..                             | 80   | 72   | ..                                | 83   | 75   |
| Payrolls                                |                                |      |      |                                   |      |      |
| Pacific Coast.....                      | ..                             | 95   | 87   | ..                                | 99   | 90   |
| California.....                         | 108                            | 106  | 100  | 110                               | 108  | 102  |
| Oregon.....                             | ..                             | 86   | 74   | ..                                | 92   | 78   |
| Washington.....                         | ..                             | 77   | 64   | ..                                | 83   | 69   |

\*Daily average.  
 †Prepared by Board of Governors of Federal Reserve System.  
 ‡Includes figures from 197 cities and Los Angeles County, unincorporated.  
 §Excluding fruit and vegetable canning.  
 Note: Index of meat production, usually published in this table, is in process of revision.

## Summary of National Business Conditions

Prepared by the Board of Governors of the Federal Reserve System

**O**UTPUT of factories and mines increased in June reflecting chiefly sharp expansion at steel mills and bituminous coal mines. In the first half of July industrial activity was generally maintained.

### PRODUCTION

The Board's seasonally adjusted index of industrial production advanced to 97 in June as compared with 92 in April and May.

At steel mills output increased from a rate of 45 percent of capacity in the third week of May to 54 at the end of June and to 56 in the third week of July. Automobile production, which had declined in May, showed some increase in June when a decline is customary. In the first three weeks of July automobile output was at a lower rate, reflecting in part curtailment preparatory to the changeover to new models. Plate glass production rose considerably in June. Output of lumber, which usually shows some increase over May, was unchanged. Among nondurable goods industries woolen mills showed increased activity in June, and activity at cotton and silk mills was maintained though declines are usual at this season. Meatpacking was lower than in May.

Mineral production increased considerably in June reflecting a sharp rise in output at bituminous coal mines which had been closed during April and the first half of May. Production of anthracite declined from May to June and there was some reduction in output of petroleum.

Value of construction contracts awarded declined in June, according to F. W. Dodge Corporation figures, reflecting chiefly a greater than seasonal decrease in private residential building. Contracts awarded for public residential construction, principally for United States Housing Authority projects, were maintained at the advanced level reached in May, while public construction other than residential showed a small decline.

### EMPLOYMENT

Factory employment and payrolls increased somewhat from the middle of May to the middle of June according to reports from a number of important industrial states. There was a sharp expansion in employment at bituminous coal mines following the reopening of the mines in the middle of May, and the number employed on the railroads increased more than seasonally from May to June.

### DISTRIBUTION

Department store sales showed a less than seasonal decline from May to June and the Board's adjusted index advanced from 85 to 86, which compares with a level of 88 during the first four months of the year. Sales at variety stores and by mail order houses showed little change.

Freight-car loadings increased more than seasonally in June reflecting a sharp rise in shipments of coal and smaller increases in shipments of grain and miscellaneous freight.

### COMMODITY PRICES

Prices of hides, silk, steel scrap, copper, and some other industrial materials advanced from the middle of June to the third week of July, while some farm products, particularly grains, declined. Prices of most other commodities showed little change.

### AGRICULTURE

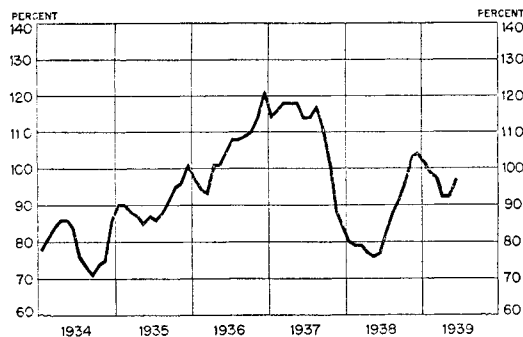
A total wheat crop of 716,655,000 bushels was indicated on the basis of July 1 conditions, according to the Department of Agriculture. This would be much smaller than last year's large crop and somewhat below the 1928-1937 average. Cotton acreage in cultivation was estimated to be about the same as last year but one-third less than the ten-year average. A record tobacco crop is indicated. Most other major crops are expected to approximate last year's harvests and are generally larger than average.

### BANK CREDIT

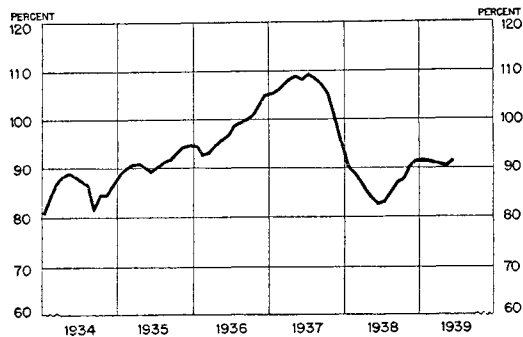
Total loans and investments of member banks in 101 leading cities continued to increase during the four weeks ending July 12, reflecting largely purchases of United States Government securities. Commercial loans, which had shown little change in recent months, increased slightly. Deposits and reserves at these banks rose to new high levels in July, reflecting continued gold imports and Treasury disbursements from its balances at the Reserve banks.

### MONEY RATES

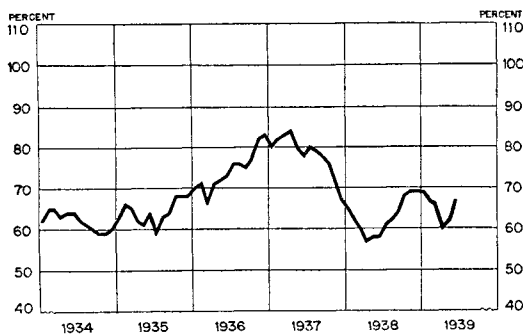
Prices of United States Government securities, which had declined somewhat during June, recovered part of the loss in July. The longest-term Treasury bond outstanding showed a yield of 2.31 percent on July 20, as compared with a record low of 2.26 on July 5. Open-market money rates showed little change.



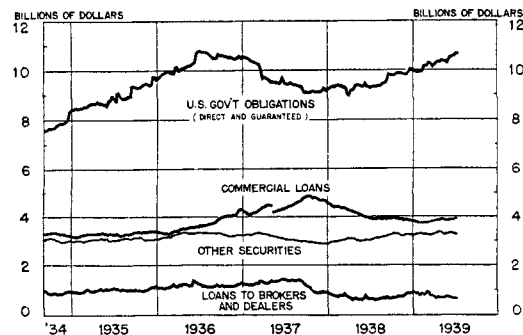
**INDUSTRIAL PRODUCTION**  
Index of physical volume of production, adjusted for seasonal variation, 1923-1925 average=100. By months, January 1934 to June 1939.



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



**FREIGHT-CAR LOADINGS**  
Index of total loadings of revenue freight, adjusted for seasonal variation, 1923-1925 average=100. By months, January 1934 to June 1939.



**MEMBER BANKS IN 101 LEADING CITIES**  
Wednesday figures for reporting member banks in 101 leading cities, September 5, 1934, to July 12, 1939. Commercial loans, which include industrial and agricultural loans, represent prior to May 19, 1937, so-called "Other loans" as then reported.