MONTHLY REVIEW

BUSINESS CONDITIONS IN THE TWELFTH FEDERAL RESERVE DISTRICT

Federal Reserve Bank of San Francisco *November 1, 1939*

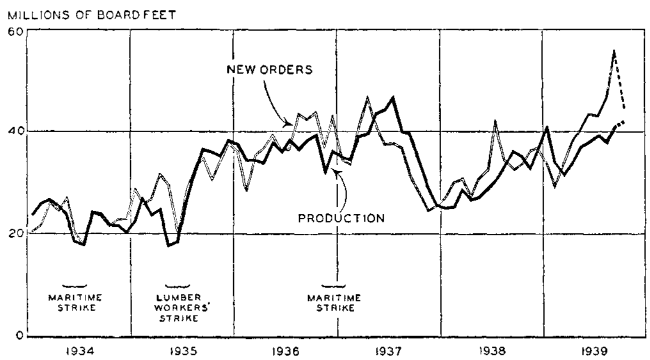
EXPANSION in economic activity in the Twelfth District, which was encouraged in September by the outbreak of war, was extended further during October. The war provided only a temporary stimulus in some lines, and in others it was actually depressing. The net effect upon district industry, however, was toward a rise in production, employment, and payrolls, which had already been increasing in the summer months.

The gain in production in September and October was not occasioned primarily by an immediate increase in actual consumption or in exports. It found its basis partly in the fact that for some considerable period consumption had been exceeding production, with consequent reductions in inventories of goods to subnormal levels, and partly in heavy buying for future use. While inventory replenishment appears to have been the principal factor in the marked rise in output in September and October, there has been some increase in actual use of the additional output. To some extent the increased production has supplied domestic users whose former foreign sources of supply were cut off by the war. A notable example of this in the Twelfth District is found in the pulp and paper industry. In addition, some rise in local consumer buying is probably taking place, owing partly to increased industrial payrolls, but this gain, as indicated by retail sales data, has been modest. Increased consumption originating in private plant expansion, renovation, and repair in the district has likewise been small, and reports generally indicate that any substantial growth in capital expenditures on plant improvement in the district will depend upon the maintenance of business volumes at a high level for several months and upon the prospects for continuation of those levels. As to export demand, while there have been increases in foreign inquiries for several district products and some increases in sales, available information indicates that aggregate exports in September and early October were but little larger than in earlier months this year. It thus appears that, as in the United States generally, production of Twelfth District industry has advanced more rapidly since early September than actual use of the goods produced, and the output has gone largely to replenish the subnormal inventories or to anticipate needs for a longer period ahead than was customary in the first eight months of this year.

INDUSTRY

There was a particularly sharp advance of new orders in the lumber, steel, paper and pulp, canned foods, and sugar industries during September, and in the case of steel and paper and pulp, buying was well maintained in the first half of October. In some of these and other industries, such as metal fabricating lines, widespread buying was reflected almost immediately in larger production. Increased activity has resulted in capacity operations at Pacific Coast steel plants during recent weeks.

Lumber output expanded in September and October, continuing the rise that started last spring. New business recently has reflected mainly additional stocking by yards supplying the residential building industry, although some pickup in railroad buying also was reported. No increase in sales for export has taken place. During the last three weeks of September, new lumber orders averaged 58,000,000 feet per day, not far from the record levels established in 1929. In October, new business declined to somewhat less than the August level of 47,000,000 feet per day, but it remained high in comparison with most periods in recent years. Accompanying the increased demand, average mill prices in the Douglas fir area advanced approximately 10 percent in September to the highest levels since 1937, and further increases occurred in the first half of October. Redwood lumber quotations also advanced somewhat. Some strength was shown by pine prices late in September.



LUMBER PRODUCTION AND NEW ORDERS—Twelfth District

Daily average. By months, January 1934 to October 1939 (preliminary). Output figures adjusted for seasonal variation.

The pulp and paper industry also experienced a material expansion in operations in September. Heavy orders for pulp and paper, assuring capacity operations for months ahead, resulted not only from increased demand from regular sources but also from a marked rise in demand from sources formerly supplied by foreign mills. Output advanced from something more than 50 percent to nearly total capacity in September and October. Prices of some types of pulp and of several kinds of paper have advanced moderately.

Activity at both mines and smelters has increased substantially since September 1. Employment, which had been staggered at many mines, is reported to have been returned generally to a five-day week basis. Not only copper mining, but also mining of the other principal non-ferrous metals has been stimulated. Prospecting and assaying have increased, and some lead and zinc properties have reopened or enlarged their scale of operations.

Among the important food lines, the sugar industry experienced an upturn in output during September. With

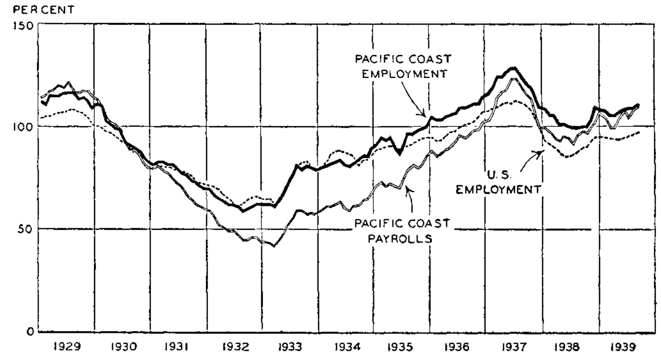
Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

the subsidence of the widespread heavy buying of early September, however, both sugar refinery activity and sugar prices declined, but the recession of prices left them higher than at the end of August. Flour production was only seasonally higher in September than in August, although for about one week following the outbreak of war the domestic flour market in the Pacific Northwest was very active and quotations rose to the extent of 10 percent or more. Since that time flour, as well as sugar, prices have lost part of their advance. Except for a short-lived flurry of buying accompanied by some temporary price increases, the war has had little effect upon meat-packing in this district. That industry depends largely upon local consumption for its market, and output, after allowances for seasonal influences, was lower in September than in any of the preceding four months.

Following a gradual expansion in sales of canned fruits and vegetables during the summer, orders were extremely heavy early in September. Unlike other lines affected by war-stimulated buying, however, canning operations were not increased importantly because the bulk of the 1939 canning crops had been harvested and processed. Despite a slackening in the rate of new business since the initial spurt of buying in September, the market for canned fruits, vegetables, and fish remains firm and prices have not lost any of the moderate gains made at that time.

Output in a number of district industries showed little change in September. Activity in furniture and rubber tire plants and in apparel manufacturing establishments remained close to levels of the summer months, after allowance for seasonal influences. Operations at district aircraft plants continued at the record levels attained in August.

Factory employment increased more than seasonally in September, most of the upturn taking place in the lumber, steel, paper and pulp, and metal-working industries. The increase followed a four-month period of comparative stability. Reflecting additions to the working forces in factories and an increase in the number of hours worked per week, payrolls increased contraseasonally to within 3 percent of the record peak of August 1937.



FACTORY EMPLOYMENT AND PAYROLLS

Indexes of number employed and payrolls, adjusted for seasonal variation, 1923-1925 average=100. By months, January 1929 to September 1939. (Fruit, vegetable, and fish canning industries excluded from Pacific Coast indexes).

Trade

Retail trade, except in sales of certain staple foodstuffs, did not increase more than seasonally in September. In fact, sales in some lines declined. Value of sales of independent grocers advanced sharply in September and were as high, or nearly as high, as the peak 1937 month when food prices averaged considerably higher than at present. Department store and restaurant sales declined substantially in September, in part reflecting excessively hot weather in California during the third week of September. Apparel, drug, furniture, and automobile sales showed about the usual seasonal changes.

Inventories of department stores increased about 1 percent more than the estimated seasonal gain during September. This does not indicate the extent to which buying by department stores was stimulated by the war, since little of the additional goods ordered in September had been received by the end of the month. Figures of outstanding orders placed by department stores are not reported at the present time. Available information indicates, however, that at department stores in this area the war was not much of an incentive to a general increase in buying, and that placement of additional orders was limited to comparatively few items in which price advances appeared most probable, and in which style changes are not of importance.

Agriculture

The period of heavy domestic buying of agricultural products precipitated by the outbreak of war in Europe was relatively brief, and after mid-September market activity declined. Prices of district farm products likewise decreased and in late October averaged only slightly above the levels prevailing in the summer months. As a result of the heavy marketings and the spurt in prices early in the month, it appears evident that cash income of district farmers in September increased more than seasonally, although final income estimates are not yet

Production and Employment—

Index numbers, 1923-1925 average=100	With Seasonal Adjustment			Without Seasonal Adjustment		
	1939		1938	1939		1938
Industrial Production*	**Sept.**	**Aug.**	**Sept.**	**Sept.**	**Aug.**	**Sept.**
Manufactures (physical volume)						
Lumber	89	83	78	101	98	89
Refined oils	—	—	—	167	162	166
Cement	..	108	99	..	120	105
Wheat flour	120	120	98	114	120	117
Minerals (physical volume)						
Petroleum	—	—	—	93	92	101
Lead (U. S.)†	71	71	50	67	68	48
Silver (U. S.)†	..	79	102	..	78	97
Construction (value)						
Residential Building Permits‡						
Twelfth District	42	57	45	47	57	50
Southern California	44	68	51	49	67	55
Northern California	40	43	42	44	42	45
Oregon	24	36	25	28	36	30
Washington	45	38	28	48	44	30
Intermountain states	58	70	63	77	79	83
Public works contracts	—	—	—	142	263	254
Miscellaneous						
Electric Power Production	220	216	200	231	237	209
Factory Employment and Payrolls§						
Employment						
Pacific Coast	111	109	100	116	113	105
California	121	120	111	127	124	116
Oregon	108	105	91	116	109	98
Washington	91	89	83	96	92	87
Payrolls						
Pacific Coast	109	108	97	113	113	100
California	123	121	109	125	126	111
Oregon	100	95	89	111	106	98
Washington	84	86	74	89	90	79

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

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

available. With little apparent rise in domestic consumption, however, some of the expansion in marketings and income in September may be offset by reductions during the remaining months of the year.

In contrast with the behavior of domestic markets, foreign trade in district agricultural products declined in September. Lack of shipping space and sharply advanced ocean freight rates, declines in foreign currencies in terms of the dollar, and restrictions and regulations imposed by a number of European countries upon imports adversely affected the volume of export sales of many locally produced farm products. This reduction in foreign sales, if continued, will be an unfavorable factor for some important district crops, including, among others, apples, wheat, pears, prunes, and walnuts. In the aggregate, crop production and carryover supplies this year are but little short of the record supplies in 1937 and 1938. Foreign markets have been an important source of demand for many farm products, and any material reduction in exports will increase the already large domestic supplies.

Livestock prices have recently lost almost all the gains made in the first half of September, and mid-October quotations approximated those of a year ago. Livestock ranges of this district are in poor to fair condition, and shortage of water for stock is reported from some areas. Concentrates and feed grains are ample but higher in price than a year ago. These factors tend to increase production costs for growers, whereas prices received by growers are higher than a year ago only in the case of wool, hides, and certain other by-products.

The outlook for apples, one of the more important district crops, is less favorable now than before the outbreak of hostilities in Europe. The short crop in the Pacific Northwest was further reduced by worm damage during September, and latest reports indicate that output will probably amount to about 24,500,000 bushels in the Pacific Northwest and 29,418,000 in the entire district. Elsewhere in the United States a large crop is in prospect, and only 29 percent of the total domestic output is expected to be harvested from orchards in this district. In most recent years the Twelfth District has produced almost 40 percent of the nation's apple crop.

The export market usually takes from 10 to 20 percent of the district's apple crop, but this year it is feared that foreign sales, particularly to Europe, will be severely curtailed. In the domestic market, supplies of competitive fruits (including other deciduous fruits, citrus fruits, and canned fruits) are of near-record volume. Reflecting

Commercial Production* of Apples—Twelfth District
(thousands of bushels)

	Average 1928-37	1936	1937	1938	Forecast 1939
Arizona	32	39	38	32	38
California	5,032	4,887	5,417	5,019	4,600
Idaho	3,563	2,297	3,100	2,451	2,200
Oregon	2,828	2,750	2,154	2,617	2,300
Utah	404	340	310	345	280
Washington	24,907	21,600	22,300	22,400	20,000
Twelfth District	36,766	31,913	33,319	32,864	29,418
United States	96,469	75,539	115,501	82,395	100,998

*That part of the crop sold for fresh consumption.
Source: United States Department of Agriculture.

these factors, market prices and prices paid growers have declined, and in October were lower than a year ago. Growers are now attempting to formulate a diversion program, under the United States Department of Agriculture, to reduce the quantity of fruit available by restricting shipments to the better grades only.

Credit and Banking

After declining considerably during the first eight months of the year total loans of weekly reporting member banks in the Twelfth District advanced sharply in September and early October, offsetting more than a third of the reduction during earlier months of the year. The recent increases came almost entirely in commercial and industrial loans, which had accounted for much of the decline in the preceding eight months. Gains were widespread, taking place in six of the seven cities from which weekly reports are received.

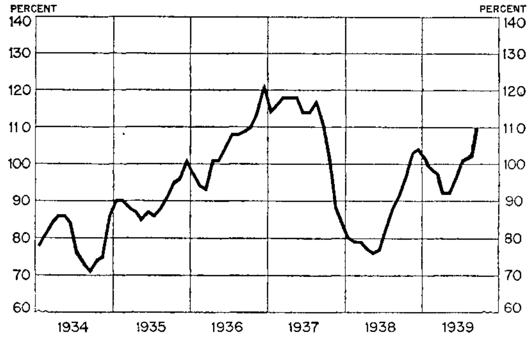
Expansion in demand for credit from commercial and industrial sources during recent weeks resulted partly from seasonal influences. In addition, a few large loans were made by district banks to firms operating on a national basis. These firms, which customarily borrow heavily at this time of year, obtain funds necessary to meet their seasonal requirements only intermittently from district banks. This year, however, they borrowed substantial sums locally in September and early October. A third factor in the increase in commercial loans was the need for additional funds to finance increased inventories and expanding industrial operations. Earlier in the year many firms had reduced inventories to a minimum and this liquidation of stocks of goods was reflected in a decline in commercial borrowing, particularly at banks in San Francisco. With the outbreak of war, however, distributors and processors in many lines sought to protect themselves against delays in deliveries, price increases, and the like by adding substantially to the stocks of goods they handle. To aid in financing those purchases, they obtained loans from local banks. This factor, however, appears to have been of smaller actual significance to date than might be inferred from reports of active buying in many lines. The heavy buying in early September represented partly a shift of inventories from producer to distributor, as in the canned foods industry, and a net increase in credit was not necessarily required.

Distribution and Trade—

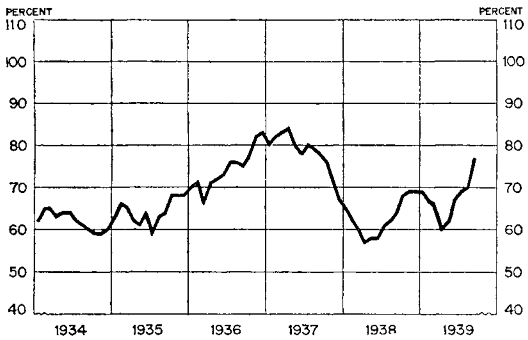
Index numbers, 1923-1925 average=100	With Seasonal Adjustment			Without Seasonal Adjustment		
	1939		1938	1939		1938
Retail Trade	Sept.	Aug.	Sept.	Sept.	Aug.	Sept.
Department store sales (value)*						
Twelfth District	95	100r	86	98	94	89
California	91	99	83	91	96	84
Los Angeles	79	88	84	80	88	86
Bay Region	103	108	77	101	105	76
San Francisco	96	101	59	96	97	59
Oakland	124	128	121	116	129	112
Pacific Northwest	100	100	89	113	94	101
Portland	103	105	94	115	97	106
Seattle	101	99	88	115	93	99
Spokane	90	91	79	104	86	91
Salt Lake City	89	91	84	95	72	89
Department store stocks (value)†	63	62	65	64	60	66
Furniture store sales (value)*‡	76	76	70	81	78	74
Furniture store stocks (value)†‡	71	69	68	71	67	67
Automobile sales (number)*						
Total	—	—	—	76	91	59
Passenger	—	—	—	69	83	56
Commercial	—	—	—	144	180	124
Carloadings (number)*						
Total	87	83	80	100	96	93
Merchandise and misc.	98	97	90	116	108	106
Other	72	67	68	80	81	77
Intercoastal Traffic (volume)						
Total	78	71	55	80	74	56
Eastbound	66	59	47	68	63	49
Westbound	117	109	82	118	111	83

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

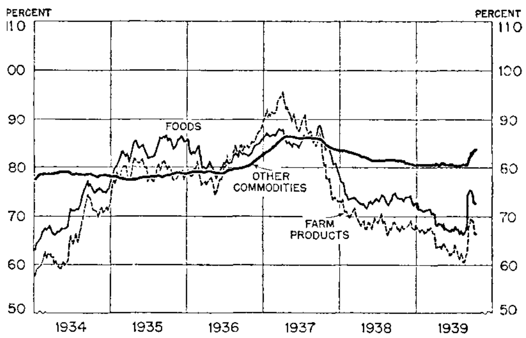
Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis



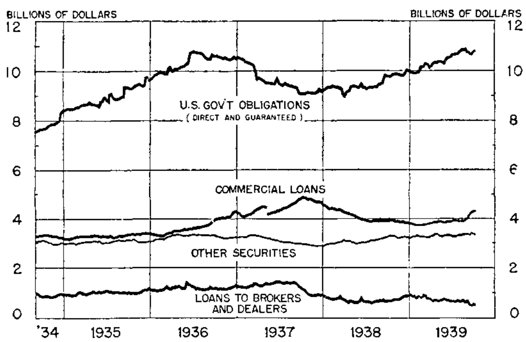
INDUSTRIAL PRODUCTION
Index of physical volume of production, adjusted for seasonal variation, 1923-1925 average=100. By months, January 1934 to September 1939.



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



WHOLESALE PRICES
Indexes compiled by the United States Bureau of Labor Statistics, 1926=100. By weeks, 1934 to week ending October 14, 1939.



MEMBER BANKS IN 101 LEADING CITIES
Wednesday figures for reporting member banks in 101 leading cities, September 5, 1934, to October 11, 1939. Commercial loans, which include industrial and agricultural loans, represent prior to May 19, 1937, so-called "Other loans" as then reported.

Summary of National Business Conditions

Prepared by the Board of Governors of the Federal Reserve System

VOLUME of industrial production, which had turned up sharply last summer, advanced still more rapidly in the six weeks after the outbreak of war. Employment also increased but at a less rapid rate. Consumption of goods by industry and by individuals has not expanded so rapidly as production and orders. Buying of basic commodities, after a burst of activity in early September, has slackened considerably, but orders for many semi-finished goods and for finished products, particularly machinery and railroad equipment, have continued in large volume. Most orders have come from domestic sources. Prices of basic commodities advanced sharply in the early part of September, but in recent weeks prices of foodstuffs have declined while prices of industrial materials in most instances have been maintained. Prices of finished goods have shown a much smaller advance.

Production

In September the Board's seasonally adjusted index of industrial production advanced to 110 percent of the 1923-1925 average as compared with 103 in August and 92 last spring. Increases in output of iron and steel, flour, sugar, meat products, and petroleum were particularly marked in September. In the steel industry ingot production rose from an average rate of 61 percent of capacity in August to 71 in September. In the first three weeks of October the rate advanced further to 90 percent and actual volume of output was at the highest level on record. Flour production rose to near record levels and at meat-packing establishments activity was at the highest rate reached in several years. The sharp increase in output of crude petroleum followed a considerable reduction in the previous month and currently production is at about the high rate prevailing before wells were closed in the latter half of August. In other industries increases in activity, though quite general, were not so marked. Automobile production showed a sharp seasonal rise as volume production of new model cars was begun at most plants, and in related lines, such as plate glass, activity also increased. Textile production increased somewhat further from the high level reached earlier. Shoe production, however, which had been in large volume in the first eight months of the year, decreased in September. Mineral production advanced generally and iron ore shipment schedules were expanded to build up stocks at lower lake ports before the close of the shipping season. Value of construction contracts, as reported by the F. W. Dodge Corporation, rose further in September, reflecting a contraseasonal increase in private residential building. Other private construction showed little change and there was some reduction in the volume of new public projects, both residential and nonresidential.

Distribution

In September and the early part of October department store sales increased considerably. Freight-car loadings also advanced sharply, with the most marked increases reported in shipments of coal and of miscellaneous freight, which includes most manufactured products.

Commodity Prices

Wholesale prices of foodstuffs declined after the middle of September, following sharp advances earlier in the month. Prices of industrial commodities, which rose considerably until the third week in September, subsequently were generally maintained, although prices of some materials, such as steel scrap, hides, and rubber, declined from earlier peak levels.

Bank Credit

Following reductions during the early part of September, Government security holdings by member banks in 101 leading cities increased somewhat during the three weeks ending October 11, reflecting largely the purchase of Treasury bills. Commercial loans continued to increase, but at a less rapid rate than in late August and early September. The volume of demand deposits at city banks also increased further. Excess reserves, which had increased sharply at member banks during the first half of September, showed further moderate increase during the four weeks ending October 11.

Money Rates and Bond Yields

Prices of United States Government securities increased in the latter part of September and the first half of October, following sharp declines early in September. Average yields on long-term Treasury bonds declined from 2.79 percent on September 21 to 2.62 percent on October 16. Yields on Treasury notes declined to 0.78 percent from 1.30 percent early in September.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis