

MONTHLY REVIEW

BUSINESS CONDITIONS IN THE TWELFTH FEDERAL RESERVE DISTRICT

Federal Reserve Bank of San Francisco

February 1, 1940

BUSINESS volumes in the Twelfth Federal Reserve District were considerably larger in the closing months of 1939 than in the corresponding months of 1938. Some broad similarity occurred in movements of business in the two years, in that contraction was apparent in the first half of each and expansion occurred in the second half. The rise in the second half of 1939 was much more pronounced than a year earlier, however, owing to the heavy buying following the outbreak of war in Europe on September 1. This movement was also accompanied by considerable rise in prices which was not the case in 1938. On the whole, it appears that business has been more active in this region during the past few months than at any time in the past decade, except for a brief period in mid-1937.

Despite a small reduction (after seasonal allowance) in factory payrolls during the first three months of 1939, consumer incomes and expenditures were relatively well maintained and inventories in many lines were reduced in the first half of the year. The decrease in inventories, prompted partly by uncertainties originating in the acute political situation in Europe and by weakness in commodity prices, was accompanied by a substantial reduction in loans of district banks for commercial and industrial purposes. Residential building became more active during the spring months, however, than at any time in the previous ten years. The resulting demand for building materials, both locally and elsewhere in the United States, stimulated activity in the lumber and related products industries during the late spring, and was a factor helping to bring about a slight revival in operations in other lines during the summer.

Some recovery in district business activity was consequently in the making at the time of the outbreak of the European conflict in September. Announcement that actual hostilities had begun precipitated a widespread wave of buying, participated in by consumers as well as by manufacturers, processors, and distributors. The increased purchases were almost entirely of domestic origin, and resulted mainly from efforts to build up inventories in anticipation of higher prices and of a larger volume of sales. Sheer speculative buying, however, was also a factor. In succeeding weeks, as it became apparent that the war would be less of a direct and immediate stimulus to business than had been anticipated at first, new ordering fell off considerably. Prices of numerous commodities which had advanced in September likewise declined, although quotations generally were somewhat higher at the year-end than during the summer months.

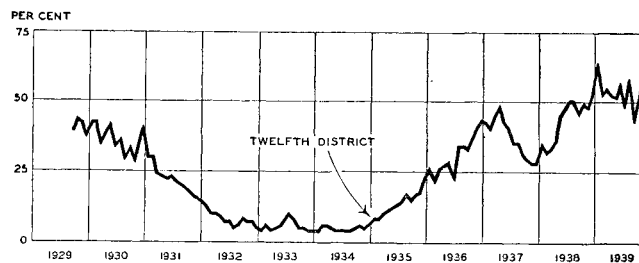
The large volume of orders placed during the early fall of 1939 stimulated industrial operations and increased factory employment and payrolls. Demand for bank credit also increased, particularly from commercial and industrial enterprises, and during the autumn months a considerable volume of loans was made. Interest rates remained as low as had prevailed earlier in the year or lower. Factory employment in the Pacific Coast States

had risen by December, on a seasonally adjusted basis, to 122 percent of the 1923-1925 average, compared with 109 in August. This was the highest level since August 1937. Factory payrolls reached 121 percent of the 1923-1925 average, a record high excepting July and August of 1937 when the seasonally adjusted index was 123. Some improvement in farm income also resulted during the fall of 1939, owing mainly to price advances. Foreign buying, except in the case of aircraft and pulp and paper, contributed but little in the way of an increased market for the larger volume of goods produced in the district during the last four months of the year. While demand for materials and labor originating in capital expenditures by private firms for the renovation, repair, and extension of production facilities increased, the additional demand for goods from that source was relatively small. During the last few weeks of the year and early in 1940 new orders were in much smaller volume than in September and October, and were lower than current production in some industries.

Despite the expansion in consumer income, retail trade lagged during the fall months of 1939, except in the case of new automobile sales which advanced sharply. During November, however, more widespread gains in retail trade became evident, and in December a greater than seasonal advance took place. In that month, value of department store sales was equal to the December 1936 peak, and larger than in any other December since 1929, when retail prices were much higher.

BUILDING AND HEAVY CONSTRUCTION

More houses were built in the Twelfth District in 1939 and their aggregate value was greater than in any year since 1928. Many of these houses were built by operative builders, but available information indicates that there was no important accumulation of unsold houses. Al-



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

though something like 65,000 or 70,000 new family accommodations came onto the market during the year, vacancies at the year-end continued at the low levels of the past few years, and rents generally remained firm. Total value of non-farm dwellings on which construction started during the year approximated \$235,000,000, com-

pared with \$190,000,000 in 1938. In the 1939 total were several multi-family projects sponsored by the United States Housing Authority having a contract value of more than \$7,000,000. Activity was at a high level in nearly all parts of the district throughout the year, the adjusted index of permits value averaging 55 percent of the 1923-1925 base with a range, on a quarterly basis, from a low of 50 in the third quarter to a high of 64 in the last quarter of the year.

While residential construction was considerably larger in 1939 than in 1938, nonresidential building other than heavy engineering projects was about the same in each of those years, totaling \$100,000,000 annually. More than a third of the 1939 total consisted of publicly financed structures such as schools and postoffices.

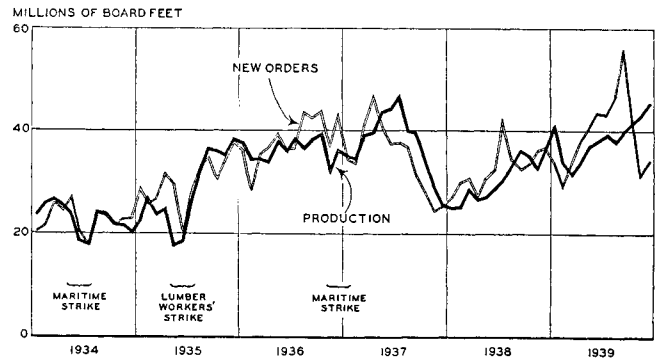
Contracts for heavy engineering construction for which permits were not issued amounted to \$211,000,000 during 1939, a total about a third lower than the 1938 figure. Excluding two contract awards made in 1938 in connection with the Grand Coulee and the Shasta dams, on which projects actual construction was more active in 1939 than in the preceding year, the decline was about 12 percent. Most of this decrease was accounted for by a reduction in awards for street and road construction from \$91,000,000 to \$53,000,000, reflecting a reduction in W.P.A. allotments for that type of work. Among the larger projects undertaken in 1939 was Friant Dam, a unit in the Central Valley Project in California, for which contracts amounting to \$9,000,000 were awarded, and the Lake Washington pontoon bridge in Seattle for which awards approximated \$8,000,000. Additional contracts in excess of \$20,000,000 for cement, aggregates, equipment, and for the relocation of a railroad were awarded in connection with the Shasta Dam undertaking which, like Friant Dam, is a unit in the Central Valley Project in California.

BUILDING MATERIALS INDUSTRIES

Among industries manufacturing building materials, the decline in operations in the first part of 1939 was arrested earlier and expansion set in earlier than in most other lines. In the important lumber industry, which employed roughly half of all industrial wage-earners in Oregon and Washington during 1939, production declined sharply during the first quarter. With demand from the building industry continuing active, mill operations expanded after March and in May had attained a higher level, on a seasonally adjusted basis, than in any month of 1938. Further gains took place during the summer months and particularly after September. In December, output on a seasonally adjusted basis was as high as the monthly average reported in the years 1923-1925 and was 23 percent higher than in December 1938. The marked rise in production during the fall and early winter reflected heavy war-inspired buying by distributors which resulted in mills accumulating a large volume of unfilled orders. This heavy buying started at a time when mill stocks had been reduced to relatively low levels and, despite sharp expansion in output and shipments, unfilled orders at the year-end were larger than in December 1938. For the year as a whole, district lumber production was 83 percent of the 1923-1925 average, a rate considerably higher than the average of 67 in 1938, and about the same as in 1937.

Cement production increased to above the 1937 level of 109 percent of the 1923-1925 average, a gain of 25 percent from the preceding year. The gain in 1939 partly reflected

residential building demand but more particularly was the result of the resumption of concrete work at Grand Coulee Dam in March. Consumption of cement in the Pacific Northwest was of record proportions in 1939 and mills in that area operated nearly 85 percent of their current capacity. In California, production averaged somewhat less than 50 percent of mill capacity.



LUMBER PRODUCTION AND NEW ORDERS—Twelfth District
Daily average. By months, January 1934 to December 1939 (preliminary).
Output figures adjusted for seasonal variation.

Expansion in local building activity stimulated production of both common and face brick, particularly during the latter half of the year. Output of these products was considerably larger than in the preceding year and slightly exceeded that of 1937.

OTHER MANUFACTURING

During the first half of 1939 steel ingot output in the district was maintained at about two-thirds of capacity. Beginning in August, operations were advanced substantially and during the last quarter averaged above 90 percent of capacity. The new business received by local steel mills, which probably supply less than a third of the district demand for steel, was widely diversified. At the turn of the year new orders were well below the record high levels of September and October, but a considerable volume of unfilled orders still existed at local plants, according to available information.

A marked revival of merchant shipbuilding on the Pacific Coast occurred during 1939, owing to contracts awarded by the Maritime Commission to Pacific Coast yards for construction of 23 vessels having a value of about \$45,000,000. This brought about considerable shipyard renovation prior to actual start of work on the ships. Most of the steel and power equipment to be used in the ships will come from the East, but construction of the ships in this region is providing a considerable increase in local employment and payrolls.

The paper and pulp and aircraft industries were directly and substantially stimulated by the war in Europe. Until September, district pulp mills were producing at the depressed levels to which activity had declined in mid-1938—somewhere near 50 percent of capacity. A rush of new business in September came from both domestic and foreign consumers who anticipated that hostilities would interfere with shipments from the customary sources of supply. Production was promptly increased and near-capacity operations during the final quarter of the year were reported.

The district aircraft industry continued to grow rapidly during 1939. Value of output is estimated at more

than \$100,000,000, about 60 percent above the 1938 figure which was a record up to that time. The rise in output was accompanied by a doubling of employment over the year-period, the number of wage-earners at all district aircraft plants approximating 28,000 in mid-December. Despite record production and deliveries, unfilled orders at major district plants totaled around \$237,000,000 at the year-end. New orders for planes totaled about \$250,-

tions at the Gulf Coast. Prices of the various grades of heating and fuel oils generally declined in the first half of the year but recovered somewhat in the fall months. Retail prices of gasoline were generally unchanged throughout the year.

Reflecting the smaller number of wells drilled, expenditures for oil field development declined somewhat in 1939, and capital expenditures in refineries were likewise reduced. Major programs of plant modernization and construction had been undertaken in 1937 and 1938.

Activity in the motion picture industry, insofar as it is reflected by the cost of production of pictures filmed, was about unchanged in 1939 from the level of a year earlier, when films costing \$165,000,000 were produced. Profits in the industry, however, were reported to have been reduced somewhat owing to a 10 percent wage increase in September and to the war, which has curtailed foreign markets and led to unfavorable exchange developments.

Automobile assemblies, which declined considerably in the spring of 1939, expanded sharply after the 1940 models were introduced. On a seasonally adjusted basis both output and retail deliveries during the closing months of the year compared favorably with the highest levels of 1936 and 1937.

Production of canned fruits and vegetables was somewhat greater in 1939 than in the preceding year. The pack in 1938 had been reduced substantially, largely reflecting the heavy inventories carried over from the preceding season. Stocks of most important items had been reduced to more normal proportions by mid-1939, however, and that season's pack was increased although not to the levels of 1936 or 1937. Sales by canners during the late summer were reported to be in good volume, partly reflecting anticipated advances in prices from the low levels pre-

ESTIMATED VOLUME OF INDUSTRIAL OUTPUT
TWELFTH DISTRICT
(expressed as percentages of 1929 output)

	1929	1933	1936	1937	1938	1939
Lumber	100	43	73	76	61	76
Refined oils	100	66	80	85	82	81
Motion pictures (cost)	100	76	r113	r133	129	129
Smelting and refining	100	31	r69	90	63	77
Paper	100	87	120	130	111	135
Pulp	100	99	154	200	139	142
Automobile assemblies	100	48	129	135	79	94
Rubber tires	100	58	125	123	..	..
Aircraft (value)	100	100	700	r1038	1400	2200
Steel ingots	100	63	114	112	82	115
Cement	100	49	107	102	83	103
Canned fruit	100	93	110	125	86	108
Canned vegetables	100	69	143	153	116	122
Canned fish	100	82	119	114	102	96
Meat	100	111	114	117	116	118
Sugar	100	115	103	100	110	121
Flour	100	84	94	98	96	107
Butter	100	112	105	106	112	111
Cheese	100	127	143	150	163	161
Glass containers	100	111	173	210	166	185
Wool consumption	100	98	122	114	100	114
Copper	100	16	62	87	56	77
Lead	100	44	58	69	56	55
Zinc	100	56	99	116	96	95
Gold	100	r93	195	215	224	249
Silver	100	41	99	122	107	106
Petroleum	100	59	73	82	86	77
Natural gas	100	76	94	96	99	98
Coal	100	53	66	76	58	56

r Revised.

000,000 in 1939. Although commercial orders revived sharply, military demand was of dominant importance, accounting for 85 to 90 percent of the total. Somewhat over half the military orders were from foreign governments, and more than 50 percent of those orders came after the lifting of the embargo on shipments of arms and munitions on November 4.

By the end of 1939 increased demand for aircraft had brought substantially all idle capacity in the industry into intensive operation and had prompted a wave of plant construction. Every major firm in the district made substantial additions to capacity through either construction, purchase, or lease during the year, or was engaged in construction on December 31. Several smaller plants also expanded and one new concern had nearly completed a large plant at the year-end.

Crude petroleum output was reduced 10 percent in 1939 to 615,000 barrels daily, partly as a result of concerted efforts to reduce petroleum stocks which had assumed burdensome proportions in 1938. These efforts were likewise reflected in a further decline in drilling of new wells for the year as a whole, although drilling activity turned upward toward the end of 1939. Refinery operations, however, were about unchanged and, with a slight increase in aggregate demand for petroleum and its products, total inventories decreased moderately.

Foreign sales of petroleum declined during 1939 reflecting principally smaller shipments to Japan. The outbreak of war in Europe appears to have had no important effect upon the volume of exports of the principal petroleum products, although export prices for gasoline, which had been marked down in January and July, rose sharply later in the year following an advance in quota-

Production and Employment—

Index numbers, 1923-1925 average=100	With Seasonal Adjustment			Without Seasonal Adjustment			Annual Average 1939 1938
	1939	1938	Dec. Nov. Dec.	1939	1938	Dec. Nov. Dec.	
Industrial Production*							
Manufactures (physical volume)							
Lumber	100	94	81	77	91	64	83 67
Refined oils	—	—	—	163	171	164	158 159
Cement	138	122	135	102	122	100	110 88
Wheat flour	110	87	109	110	96	109	123 111
Minerals (physical volume)							
Petroleum	—	—	—	93	93	98	93 104
Lead (U. S.)†	..	83	57	..	86	58	\$72 \$61
Silver (U. S.)†	..	91	85	..	98	86	\$90 \$93
Construction (value)							
Residential Building							
Permits‡	81	60	52	62	57	41	55 44
Twelfth District							
Southern California	67	63	57	58	64	49	60 49
Northern California	125	50	48	86	44	33	48 38
Oregon	36	52	34	21	41	20	32 24
Washington	56	56	35	32	49	20	42 30
Intermountain states	85	108	59	55	95	39	79 59
Public works contracts	—	—	—	135	204	203	185 275
Miscellaneous	—	—	—	—	—	—	—
Electric Power Production	214	230	209	202	217	198	212 194
Factory Employment and Payrolls§							
Employment							
Pacific Coast	122	118	109	118	120	102	110 102
California	135	130	118	132	133	116	122 115
Oregon	113	111	95	108	110	91	104 91
Washington	101	99	87	96	99	82	90 83
Payrolls							
Pacific Coast	121	120	102	117	120	99	108 96
California	134	133	115	132	133	113	121 109
Oregon	112	107	96	101	105	86	99 86
Washington	98	100	79	94	99	76	87 74

*Daily average.
†Prepared by Board of Governors of Federal Reserve System.
‡Includes figures from 197 cities and Los Angeles County, unincorporated.
§Excludes fish, fruit, and vegetable canning.
§Eleven months' average.

vailing during earlier months of the year. Early in the fall, war-inspired buying prompted an unusually heavy volume of sales and shipments, and prices generally were advanced. As a result stocks held by canners were reduced materially. On January 1, 1940, California canners reported that unsold stocks of canned apricots, cherries, pears, and peaches approximated 6,000,000 cases, the smallest year-end carryover in three years.

The 1939 canned Alaska Salmon pack totaled 5,200,000 cases and was one of the smallest in recent years. Since stocks accumulated during the previous year had been well worked down prior to the 1939 packing season, the canned salmon market became firm in August, even before war was declared. Unusually active demand in September further depleted available supplies and by December 31, 1939 unsold stocks in canners' hands had been reduced to slightly more than 2,000,000 cases, the lowest for that date in more than a decade. On January 1, 1940, distributors' stocks of canned salmon were 33 percent higher than on the same date a year earlier.

Output of canned tuna expanded sharply in 1939 to 3,500,000 cases, the largest pack on record. In 1938 output amounted to 2,754,000 cases.

PRODUCTION AND STOCKS OF CANNED FRUITS AND
VEGETABLES—CALIFORNIA
(in thousands of cases)

	Production			Canners' Stocks, Sold and Unsold		
	1937	1938	1939	1937	1938	1939
Apricots	5,553	1,547	3,338	3,202	1,509	1,266
Cherries	240	294	469	89	80	309
Fruit cocktails	3,221	1,988	3,711	1,295*	1,412	2,056
Fruits for salad	1,255	769	1,547	441*	445	547
Pears	1,499	1,626	1,347	793	869	578
Peaches	13,248	9,822	11,462	8,315	7,457	6,441
Other fruits	977	586	622	..	..	..
Asparagus	2,073	1,796	1,849	900	838	547
String beans	587	330	107	..	..	..
Peas	282	245	212	..	..	..
Spinach	2,198	1,040	1,509	759	473	434
Tomatoes	3,045	1,994	2,769	2,816	1,918	1,614
Tomato prod's (excl. paste)	5,404	3,419	4,312	4,424	3,462	3,161
Other vegetables	894	656	964	..	..	..

†End of calendar year except as noted. *As of June 1, 1938.

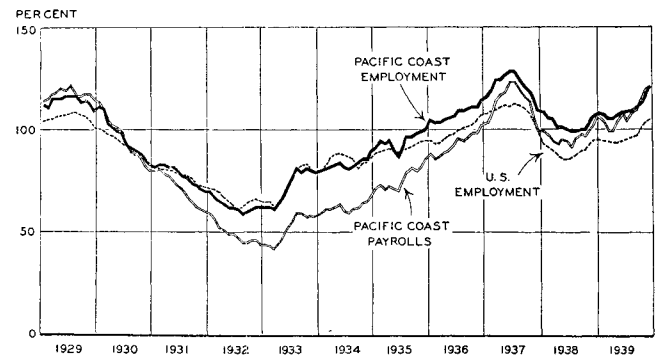
District flour production was the highest in at least 20 years, largely reflecting exceptionally heavy sales abroad, principally to China, during the spring months. The principal factor prompting large foreign purchases at that time was an increase in the export subsidy in March. Mill activity attained levels higher than at any time since monthly data became available in 1923, and these operations continued through July. A decline subsequently took place and, despite a sharp flurry in consumer buying of flour in September, fourth-quarter output was lower than in any other recent year.

Total district sugar production also attained record proportions in 1939. Sharp expansion had taken place in 1938, the increase in that year and in 1939 reflecting substantial increases in output of beet sugar which is refined in five of the seven district states. Cane sugar output was lower in 1938 and in 1939 than in any previous year since 1923.

EMPLOYMENT AND PAYROLLS

At the close of 1939, factory employment and payrolls in Pacific Coast States were but little short of the all time highs reached in mid-1937, seasonal factors allowed for. Both employment and payrolls had decreased somewhat more than seasonally during the first quarter of 1939. The

declines were arrested in April, and during the succeeding five months small but persistent gains were reported. By August both employment and payrolls at industrial establishments were slightly higher than at the beginning



FACTORY EMPLOYMENT AND PAYROLLS

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

of the year, and marked expansion between then and December brought them to the near-record levels mentioned. In December the number of employees was 15 percent higher and payrolls were 18 percent higher than a year earlier. Substantial increases were reported in all three of the Pacific Coast States, the more marked increases occurring in the Pacific Northwest. Employment in California in December was 14 percent and payrolls were 17 percent higher than a year earlier, while increases of 17 percent and 22 percent were reported in the Pacific Northwest.

MINING

District gold, silver, copper, lead, and zinc output increased from \$211,000,000 in 1938 to \$256,000,000 in 1939, but remained below the figure of \$298,000,000 reported in 1937. The increase in 1939 over the previous year reflected larger output of gold and copper, and higher prices for all the metals except gold.

Output of gold advanced for the seventh consecutive year. California accounted for 53 percent of total district production. Estimated output of 1,406,000 ounces was the largest for that State since the middle of the last century. Although the price paid by the United States Treasury for newly mined domestic silver was raised from 64.6 cents per fine ounce to 71.1 cents, effective July 1, district production for the year as a whole was slightly lower than

MINE PRODUCTION OF NONFERROUS METALS
TWELFTH FEDERAL RESERVE DISTRICT*
(in thousands)

	1929	1932	1937	1938	1939
Gold (fine ounces).....	1,060	973	2,282	2,373	2,639
Silver (fine ounces).....	40,728	17,588	49,819	43,583	42,971
Copper (tons).....	665	125	577	374	511
Lead (tons).....	317	139	219	178	175
Zinc (tons).....	108	42	126	104	103

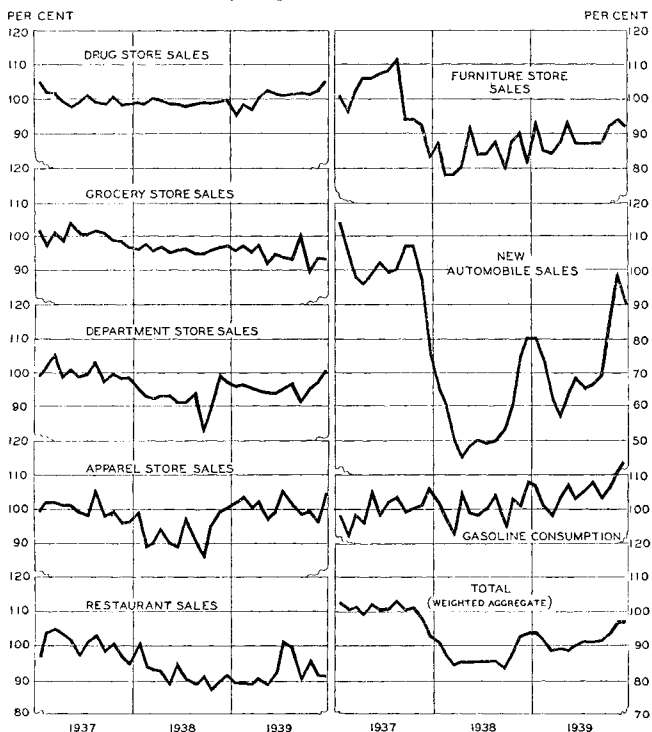
*Data include all of Arizona, part of which is in the Eleventh Federal Reserve District.

in 1938. Activity at copper mines, concentrators, and smelters was at reduced levels during the first eight months of 1939. In September, however, a sharp increase in sales, accompanied by advancing prices, stimulated production, and near-capacity operations were reported

during the fourth quarter. Lead and zinc output receded slightly in 1939, although prices of both metals averaged moderately higher than in the preceding year.

TRADE

For 1939 as a whole, aggregate value of district retail trade is estimated to have been about 5 percent larger than in 1938 but 8 percent lower than in 1937. The best levels of sales, after allowance for the usual seasonal factors, were attained in December. After moderate expansion in late 1938, district retail trade declined slightly early in 1939. This decline was of short duration, however, and was smaller than the spring decrease in industrial operations. During the spring and summer months aggregate



RETAIL TRADE—Twelfth District

Indexes of sales, adjusted for seasonal variation, 1937 daily average=100. Value figures, except automobile sales. By months, January 1937 to December 1939.

retail sales appear to have been relatively stable, reflecting the well maintained level of consumer income during that period. Retail sales of new automobiles held up somewhat better than seasonally during the summer and expanded considerably with the introduction of new models in the fall. Most other lines tended to lag behind the revival in industrial operations in September, and it was not until the last two months of the year that any widespread increase in retail trade made its appearance.

Department store sales were unusually stable throughout 1939. The seasonally adjusted monthly index in the first quarter remained unchanged at 99 percent of the 1923-1925 average. By June it had declined to 97, but in July it recovered to the level of the first quarter. Thereafter it fluctuated narrowly until the last two months of the year when an unusually active Christmas trade resulted in an advance to 104 in December.

Despite expansion in new residential building in 1939, sales of furniture stores increased only slightly and by the year-end had regained only about half the large losses

which took place in late 1937 and early 1938. Depressed conditions relative to 1937 were likewise reported by furniture departments of district department stores, which reported sales of household furnishings only 1 percent larger in 1939 than in 1938 and 14 percent lower than in 1937.

Excepting a two-month flurry, probably stimulated by summer tourist traffic in part attracted by the Golden Gate International Exposition, restaurant sales were generally lower than in 1938 and 1937. Lower food prices may partly explain the year-period decline. That factor may also account in large part for the failure of grocery store sales, measured in dollars, to increase in 1939.

New automobile sales in the district have fluctuated widely since 1937. After a precipitous decline from the fall of 1937 to the spring of 1938, sales recovered moderately but again declined in the first half of 1939, after allowance for seasonal influences. From mid-1939 to the end of the year, however, sales of new cars and trucks were exceptionally active and during the final quarter approached the record levels of 1936 and 1937.

Except for a short period immediately following the outbreak of the European war, district retailers generally appear to have observed a policy of buying to cover only their normal requirements. Local wholesale trade consequently tended to reflect the course of retail sales and for the year as a whole showed about the same percentage increase over 1938. Available information indicates that inventories of both retailers and wholesalers remained fairly stable during the year, except for the usual seasonal fluctuations.

AGRICULTURE

With near-record production and a large carryover from the preceding season, supplies of most Twelfth District crops and livestock products were heavy in 1939, while demand was relatively inactive and prices were low during much of the year. In the final quarter, however,

Distribution and Trade—

Retail Trade	Index numbers, 1923-1925 average=100			With Seasonal Adjustment (1939-1938)			Without Seasonal Adjustment (1939-1938)			Annual Average 1939 1938
	Dec.	Nov.	Dec.	Dec.	Nov.	Dec.	Dec.	Nov.	Dec.	
Department store sales (value)*										
Twelfth District.....	104	100	100	179	105	170	99	96		
California.....	104	100	102	181	105	175	99	97		
Los Angeles.....	94	92	92	156	95	153	90	90		
Bay Region.....	111	107	112	201	115	194	107	101		
San Francisco.....	101	99	98	179	108	174	99	92		
Oakland.....	138	131	132	264	136	252	128	125		
Pacific Northwest.....	105	101	96	175	104	160	99	94		
Portland.....	105	105	99	163	107	153	100	98		
Seattle.....	107	101	95	195	107	173	101	92		
Spokane.....	98	92	91	152	92	142	93	89		
Salt Lake City.....	93	r85	89	185	r92	177	90	89		
Department store stocks (value)†...	62	66	65	58	r73	60	64	65		
Furniture store sales (value)*‡....	80	83	68	116	86	99	78	72		
Furniture store stocks (value)†‡...	76	74	66	75	77	65	69	70		
Automobile sales (number)*										
Total.....	—	—	—	118	106	112	96	76		
Passenger.....	—	—	—	114	103	111	91	71		
Commercial.....	—	—	—	156	138	124	156	131		
Carloadings (number)*										
Total.....	91	92	86	80	92	76	85	79		
Merchandise and misc....	103	103	95	92	103	85	96	90		
Other.....	75	78	74	66	79	64	72	65		
Intercoastal Traffic (volume)										
Total.....	69	75	62	64	76	58	88	54		
Eastbound.....	53	56	50	49	60	47	57	45		
Westbound.....	122	142	105	115	131	99	105	84		

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

domestic demand recovered somewhat and prices tended higher. District farm cash income from marketings of crops and livestock products during the first nine months of the year was consistently lower than a year earlier, but greater than seasonal expansion thereafter resulted in moderate year-period increases in the final quarter. For the year as a whole gross income from marketings approximated \$996,116,000, slightly larger than in 1938.

TOTAL CASH FARM INCOME*—TWELFTH DISTRICT
(in thousands of dollars)

	1929	1932	1936	1937	1938	1939
Arizona . . .	68,027	23,407	48,273	60,241	58,051	60,984
California . .	649,751	334,459	616,741	694,168	545,039	572,431
Idaho	115,982	41,216	99,475	109,295	84,541	96,674
Nevada	18,719	5,851	12,072	14,665	11,893	13,643
Oregon	113,842	46,360	110,083	122,184	102,360	108,880
Utah	58,154	25,165	43,252	50,296	46,168	46,987
Washington . .	183,317	79,166	163,049	167,142	133,341	149,192
Twelfth District . .	1,207,792	555,624	1,092,945	1,217,991	981,393	1,048,791

*Including Government payments.

In addition, Federal Government benefit payments to farmers totaled \$52,675,000, more than double the amount of such payments in 1938. Including those payments, total district farm cash income was approximately 7 percent higher in 1939 than in the preceding year.

The accompanying tabulation indicates gains in total farm receipts in 1939 in all states of the district. Of the more important district farm commodities, increases were reported in receipts from apricots, cling peaches,

CASH FARM INCOME AND GOVERNMENT PAYMENTS
TWELFTH DISTRICT
(in thousands of dollars)

	1938			1939		
	Farm Crops	Livestock & Prods.	Gov't Pay-ments	Farm Crops	Livestock & Prods.	Gov't Pay-ments
Arizona	30,876	24,621	2,554	28,372	27,221	5,391
California	327,756	205,042	12,241	347,696	205,351	19,384
Idaho	37,670	43,710	3,161	41,483	46,499	8,692
Nevada	1,449	10,315	129	1,610	11,800	233
Oregon	44,874	54,987	2,499	45,752	56,310	6,818
Utah	14,247	29,991	1,930	11,848	32,267	2,872
Washington	72,550	58,913	1,878	80,208	59,699	9,285
Twelfth District . .	529,422	427,579	24,392	556,969	439,147	52,675

pears, potatoes, sugar beets, truck crops, meat animals, and wool. Decreases in income from citrus fruits, grapes, and cotton were reported, as well as from eggs and dairy products.

The direct benefit payments received by farmers during 1939 do not constitute an inclusive measure of the aid accorded district agriculture by the Federal Government. Indirect but substantial benefits were extended growers of wheat, cotton, and hops by the granting of non-recourse loans, the effect of which was to establish minimum prices for those crops. Exports of wheat and flour from the Pacific Northwest continued to be subsidized. The use of the Food Stamp Plan method of distributing surplus agricultural products to relief recipients through regular commercial channels was extended both within and outside the district, during 1939. Although that program has thus far had but a negligible effect upon total demand for farm produce, Twelfth District agriculture has shared in any benefits that may have been derived from it, for 12 of the 16 commodities so distributed are produced in important volume in this district. The orderly flow to market of several important district farm products was promoted by

Federal and state marketing agreements during the year and funds were provided for the purpose of developing new markets and new uses for farm products.

Prices paid by farmers for goods used in maintaining their families, farms, and equipment and in production were about the same in 1939 as in 1938 or slightly lower. Of the more important overhead costs involved in farm operation, interest rates on both long-term mortgage credit and on short-term production credit continued low, with a small further decline in rates on production credit becoming effective in mid-summer. Taxes showed little change from 1938 levels.

ACREAGE, YIELD, AND PRODUCTION OF PRINCIPAL GRAIN AND FIELD CROPS—TWELFTH DISTRICT

Grains	Acres		Unit	Production—Total				
	Harvested			Per Acre	Av.			
	1938	1939			1928-37	1938	1939	
Barley	1,532	1,776	bu.	27	27	40,634	41,774	48,824
Corn	233	229	bu.	30	31	7,690	6,895	6,983
Sorghums	180	139	bu.	31	27	3,946	5,597	3,702
Oats	719	924	bu.	33	37	26,227	23,374	34,577
Rye	80	86	bu.	12	11	742	937	975
Wheat, all	5,546	4,436	bu.	24	22	106,499	131,486	99,118
Winter	3,613	3,184	bu.	24	23	67,066	85,982	71,818
Spring	1,933	1,252	bu.	24	22	39,433	45,504	27,300
Field Crops								
Alfalfa seed . . .	140	165	bu.	3	3	326	361	412
Beans, dry	471	451	bag	13	12	5,267	6,221	5,582
Clover seed	89	77	bu.	4	4	197	364	313
Cotton, lint	544	514	bale	1.1	1.3	439	620	647
Cottonseed	—	—	ton	—	—	195	276	288
Flaxseed	53	138	bu.	16	15	515	822	2,079
Hay, all	5,908	5,927	ton	2.1	2.1	12,323	12,612	12,192
Alfalfa	2,781	2,827	ton	2.9	2.8	7,859	8,167	8,046
Hops	32	31	bale	5.6	6.4	170	176	197
Peas, dry	148	159	bu.	18	19	3,204	2,690	3,054
Potatoes	292	307	bu.	228	226	50,573	66,713	69,380
Rice	125	120	bu.	67	75	7,827	8,375	9,000
Sweetpotatoes . .	13	10	bu.	117	120	1,116	1,521	1,200
Sugar beets	285	293	ton	14	15	2,369	4,066	4,294

Although total crop production in 1939 approximated the records of the preceding two years, there was considerable shifting in acreage planted to different crops. Wheat acreage was reduced in accordance with the agricultural adjustment program, while acreages planted to barley, oats, and other field crops were enlarged. Flax production, until recently of little importance in the district, had a value of \$2,756,000 in 1939. Acreage of that crop was more than double what it was in 1938 and, like acreage of sugar beets, set a new record. Yields per acre of almost all grain and field crops were approximately normal. Combined with heavy carryovers from the previous season, supplies were unusually large and portions of several important crops, including apples, apricots, grapefruit, hops, lemons, lettuce, oranges, peaches, pears, plums, potatoes, and prunes, were left unharvested or diverted to other than regular commercial channels.

The Twelfth District is the most important deciduous fruit and nut growing area in the United States, and one of the most important in the world. Fresh, dried, and canned fruits produced locally supply the United States with a large proportion of all deciduous fruit consumed and are marketed in large quantities in the principal markets abroad. United States commercial production of several crops, including almonds, apricots, figs, raisins, olives, cling peaches, prunes, and walnuts, is confined to the Twelfth District. Bearing acreage of these crops changed but little in the aggregate during 1939, and total production declined only slightly from the record levels of 1937 and 1938. Output of apricots, cherries, and fresh

prunes was higher than in any previous year while the almond, pear, and walnut crops were the second largest produced. Apple production declined sharply to 28,340,000 bushels from 32,900,000 in 1938, but prices continued low, reflecting an increase in the apple crop in Eastern states and a loss of European markets that have been of great importance to Pacific Coast apple growers in the

was larger than in any earlier season. Income of most growers was above that of 1938, reflecting larger output and slightly higher prices.

Production of livestock and related products, while relatively less important as a source of farm income in this region than in the country as a whole, accounts for about 40 percent of total district farm income. During 1939, approximately \$439,147,000 was returned to this branch of agriculture, compared with \$427,579,000 in 1938, and \$438,000,000 in 1937. After the outbreak of war abroad, prices of most livestock and livestock products advanced from the low summer levels, but for the

PRODUCTION OF DECIDUOUS FRUIT AND NUT CROPS
TWELFTH DISTRICT
(in thousands of tons)

	Average 1928-37	1936	1937	1938	1939
Almonds	12	8	20	15	19
Apples*	36,766	31,913	33,431	32,864	28,339
Apricots	232	248	311	166	317
Avocados	3	6	5	14	8
Cherries	53	62	53	85	89
Figs					
Fresh	20	20	29	32	25
Dried	8	11	12	11	12
Grapes	1,944	1,723	2,462	2,541	2,182
Wine	466	472	631	641	548
Table	355	333	424	457	379
Raisin	1,123	918	1,407	1,443	1,255
Dried	210	182	246	290	252
Fresh	284	190	419	283	247
Olives	22	27	28	44	22
Peaches*	24,476	24,090	24,564	23,038	26,079
Clingstone	14,764	14,043	15,418	13,042	15,210
Freestone	9,712	10,047	9,146	9,996	10,869
Pears*	16,996	19,152	18,616	22,704	20,522
Bartlett	12,961	14,597	13,272	15,528	14,110
Others	4,035	4,555	5,344	7,176	6,412
Plums	62	64	66	63	69
Prunes					
Fresh	68	64	53	64	86
Dried	226	184	256	238	212
Walnuts	42	43	60	51	57

*Thousands of bushels.

past. In only one other year in the last two decades was apple production in this district at a lower level. The grape crop of 2,182,000 tons was about 12 percent below the large crops of 1937 and 1938, but was more than 10 percent above the average for the ten years 1928 through 1937. Prices and total cash returns received by most deciduous fruit growers were higher than in 1938. Largest increases were reported for the apricot, peach, pear, and prune crops. Income from apples, grapes, and olives was smaller than in 1938.

Total output of grapefruit, lemons, and oranges in this district was smaller than in 1938 but larger than in any other year except 1937. Prices were extremely low, however, largely reflecting competition with heavy shipments from Florida and Texas, and aggregate returns received by district growers were about 16 percent smaller than in 1938 and approximately 40 percent below the high 1937 receipts.

PRODUCTION AND FARM VALUE OF CITRUS FRUIT CROPS†
TWELFTH DISTRICT

	Production (thousands of boxes)			Farm Value (thousands of dollars)				
	Average 1927-38	1938	1939	Per Box*	1937	1938	1939	
Grapefruit	2,547	4,693	4,444	.58	.48	3,249	2,705	2,124
Lemons	7,881	9,360	11,322	2.34	1.47	23,192	21,902	16,643
Oranges, all	34,895	46,264	41,582	.83	.87	58,571	37,567	33,871
Valencias	19,380	29,234	23,245	.83	.96	35,501	23,527	21,444
Navels, etc.	15,515	17,030	18,337	.84	.75	23,070	14,040	12,427

†Crop years ending Oct. 31. *Dollars per box.

With stocks of canned vegetables less burdensome late in 1938 than a year earlier, truck crop growers in this district expanded their acreage somewhat. Output of carrots, lettuce, and early potatoes set new highs. Production of green peas for canning in the Pacific Northwest was down considerably from the two previous years, but

ACREAGE, PRODUCTION, AND FARM VALUE OF TRUCK CROPS
TWELFTH DISTRICT
(in thousands)

	Acreage		Production*		Farm Value		
	1938	1939	1938	1939	Average 1928-37	1938	1939
For Market*							
Artichokes (box)	10	10	873	1,122	\$1,570	\$1,877	\$2,020
Asparagus (crt.)	29	34	2,491	3,160	4,595	3,399	4,312
Beans, snap (bu.)	13	11	1,502	1,653	1,373	1,478	1,687
Cabbage (ton)	11	12	83	97	1,122	1,103	1,224
Cantaloupes (crt.)	52	58	9,308	8,009	10,731	9,536	9,599
Carrots (bu.)	24	26	11,034	11,589	4,357	6,616	7,173
Cauliflower (crt.)	17	16	5,531	5,117	3,291	2,914	2,830
Celery (crt.)	17	15	4,864	4,532	4,782	6,834	6,491
Cucumbers (bu.)	2	2	420	500	250	378	450
Garlic (sack)	2	2	150	154	391	450	485
Lettuce (crt.)	135	153	17,248	21,299	25,849	26,387	28,980
Onions (sack)	15	17	3,628	4,495	3,718	3,463	2,196
Peas, green (bu.)	59	61	4,972	6,409	6,809	6,779	8,032
Peppermint oil (lbs.)	3	3	106	129	148	197	232
Peppers, green (bu.)	2	2	546	636	234	437	509
Potatoes, early (bu.)	34	33	9,690	11,089	2,908	5,039	5,023
Spinach (bu.)	4	4	1,914	2,425	485	784	797
Strawberries (crt.)	28	26	2,562	2,525	5,988	5,604	5,840
Tomatoes (bu.)	31	30	5,000	4,718	4,515	7,334	7,320
Watermelons (ea.)	20	20	11,838	12,817	1,384	1,447	1,522
For Canning*							
Asparagus (ton)	48	50	45	48	4,008	3,175	3,466
Beans, snap (ton)	6	4	27	17	615	1,291	879
Corn (ton)	6	5	16	14	48	232	162
Cucumbers (bu.)	3	2	674	466	369	382	228
Peas, green (ton)	66	50	67	54	1,594	3,511	2,169
Pimientos (ton)	1	1	4	4	174	147	142
Spinach (ton)	9	8	21	28	581	249	326
Tomatoes (ton)	52	61	338	390	3,992	4,028	4,993

*Unit designations apply only to data on production.

year as a whole averaged only about the same as in 1938. Hog prices, however, declined further in the last quarter, reflecting plentiful supplies. Preliminary data indicate that the total movement of livestock from district pastures and ranges to local and eastern markets, and the aggregate consumption of livestock products were larger than in 1938. The feeding of cattle for local markets reached record proportions during the current winter with 440,000 head in district feedlots, compared with 347,000 head last winter.

BANKING AND CREDIT

Banking and credit conditions in the Twelfth District during 1939 continued favorable to the encouragement of expansion in business activity. The part played by the banking system, as in 1938, was largely passive in character, and it functioned in a manner conducive to recovery by making credit readily available on liberal terms. Large amounts of idle funds were held by most banks throughout the year, and banks were in a position to meet abundantly the credit requirements of their communities. Those requirements which could be met legitimately with bank credit rather than with equity capital were satisfied at rates of interest that continued to drift downward from the low levels prevailing in 1938. Demand for credit from private borrowers, which had declined moderately in 1938, revived during 1939 and was reflected by a con-

siderable increase in loans and discounts of district member banks, particularly during the latter half of the year. Credit extended public agencies likewise increased, banks adding to their holdings of obligations of the United States Government and of states, counties, and other administrative bodies. This gain in loans and investments contributed to a further rise in deposits. Adjusted demand deposits rose to new record levels, while time accounts of individuals, partnerships, and corporations also advanced.

CHANGES IN DEPOSITS

At the close of 1938 deposits of district member banks amounted to \$4,615,800,000, approximately 11 percent of the total reported by all member banks in the United States. Continuing the expansion of other recent years, deposits rose to \$4,901,000,000 on December 31, 1939, the increase taking place principally in demand accounts.

Most of the increase in deposits in this district during 1939 reflected operations of the United States Treasury, which continued to disburse larger amounts in the Twelfth District than it collected locally. The larger expenditures have been met by transferring funds from

some of the deposit, but since it has merely been transferred to the account of a customer in some other bank it continues as an addition to deposits of banks as a group. Thus, any increase in loans results in a corresponding gain in deposits of banks as a whole. Total loans of district member banks, which had declined slightly during 1938, increased from \$1,868,737,000 on December 31 of that year to \$1,966,789,000 at the end of 1939. Increased investments are generally similar to loans in their effects upon district bank deposits, and expansion in securities holdings of banks during the year also contributed to the deposit growth.

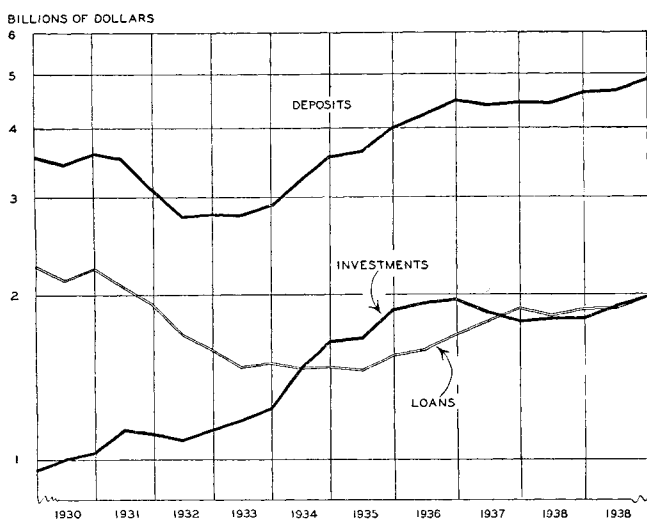
In the absence of offsetting developments, a rise might have been expected in deposits of Twelfth District member banks roughly approximating the large net Treasury disbursements and the increase in loans and investments. During the year, however, several factors drew down deposits. The amount paid by local banks and their customers to other parts of the country for goods, services, securities and the like was \$192,242,000 larger than their receipts from commercial and financial dealings with the rest of the country. Consequently, in so far as the net payments out of the district were for the accounts of customers of banks rather than for the banks themselves, deposits were reduced. Another important factor drawing down deposits was an increase of \$30,614,000 in district demand for currency, a somewhat greater than customary proportion being for larger denomination bills.

CHANGES IN LOANS

Of the increase of \$98,000,000 in total loans of district member banks during 1939, well over half was accounted for by advances secured by real estate. Loans on residential property, which had increased considerably during the preceding two years, rose \$54,000,000 further to \$563,000,000 on December 31, 1939. The bulk of this increase was accounted for by banks and branches of banks located outside the larger district cities. Loans secured by other urban real estate expanded moderately, but loans on farm lands remained about unchanged as in the preceding two years. Borrowing by commercial and industrial firms from district member banks decreased \$48,000,000 during the first half of 1939, but there was a considerable increase in demand for credit in the fall months, and at the year-end commercial loans were only \$32,000,000 less than at the end of 1938. Loans in the miscellaneous classification, which includes personal and other instalment loans to consumers, increased considerably during the year and moderate gains took place in credit extended brokers and other customers to finance the purchasing and carrying of securities.

CHANGES IN INTEREST RATES

Such change as was evident in rates of interest charged customers by district member banks was in the direction of a further slight decline. A significant change took place during the year in the cost of insured home mortgage financing. Effective August 1, the F. H. A. announced a reduction in the maximum interest rate on insured mortgage loans from 5 to 4½ percent, which brought the overall insurance and interest rate on new loans of that type to 5 percent. Rates charged customers by banks in the principal district cities on advances for commercial and industrial purposes were at least as low at the year-end as in December 1938.



LOANS, INVESTMENTS, AND DEPOSITS OF ALL MEMBER BANKS—Twelfth District

Call report data; December 30, 1939 figures preliminary. Logarithmic vertical scale; that is, equal vertical distances measure equal percentage changes rather than absolute amounts.

other sections of the country, especially New York, where receipts from the sale of securities and from taxes exceed Treasury disbursements. With most payments of the Treasury made to individuals and firms and ultimately deposited in banks, and with Treasury collections largely received in the form of checks drawn on deposit accounts of individuals and firms, any net excess of disbursements in the Twelfth District results in a corresponding increase in local bank deposits. During 1939 net Treasury disbursements in the district amounted to \$244,971,000, moderately lower than the \$275,588,000 in the preceding year.

Expansion in local loans was another important source of additional deposits of district banks in 1939. The proceeds of a loan are customarily advanced in the form of a credit to the account of the customer. As the customer checks out the funds, the bank making the loan may lose

MONTHLY REVIEW

Supplement

Federal Reserve Bank of San Francisco

February 1, 1940

Summary of National Business Conditions

Prepared by the Board of Governors of the Federal Reserve System

INDUSTRIAL activity, after a rapid rise in recent months, declined less than seasonally in December. In the first half of January activity did not show the usual seasonal increase. Distribution of commodities to consumers was maintained in large volume.

PRODUCTION

Industrial output decreased in December, but by a smaller amount than is usual at this season, with the consequence that the Board's index, which allows for usual seasonal variations, advanced further from 124 to 128 percent of the 1923-1925 average. As in other recent months, the rise in the index continued to reflect mainly increased activity in industries producing durable goods. Automobile production rose sharply in December owing to the reopening of plants of one large producer which had been closed for almost two months. Plate glass production also increased, at steel mills activity was maintained near the high level that prevailed in October and November; fourth quarter production of steel ingots was greater than in any other three-month period on record. Output of zinc and deliveries of tin continued to increase in December, and lumber production declined less than seasonally.

In the nondurable goods industries, where production had been at high levels throughout the autumn, changes in output in December were largely seasonal in character. At woolen textile mills, however, there was a considerable reduction in activity, and activity at silk mills declined to a low level, reflecting in part continued high prices of raw silk. Output of crude petroleum continued at a high rate in December, while coal production was reduced, following a large volume of output in the two preceding months.

In the first half of January steel ingot production was at a somewhat lower level than in December, while automobile assemblies were maintained at about the same high rate as in the previous month.

Value of construction contracts awarded, as reported by the F. W. Dodge Corporation, increased further in December, owing to the inclusion in the December figures of a large amount for a dam under construction by the Tennessee Valley Authority. Contracts for private building, both residential and nonresidential, declined seasonally.

EMPLOYMENT

According to reports from leading industrial states, factory employment decreased less than seasonally in December and payrolls showed a further advance.

DISTRIBUTION

Distribution of commodities to consumers increased further in December. Sales at variety stores showed about the usual sharp rise and sales at department stores and mail-order houses increased more than seasonally.

Freight-car loadings declined by more than the usual seasonal amount from November to December, reflecting chiefly a further reduction in coal shipments and a decrease in loadings of ore, which had been at a high level in the previous month.

COMMODITY PRICES

Prices of wheat, which had advanced sharply early in December and continued at the higher level during the rest of the month, declined considerably in the first half of January. Smaller decreases occurred in some other commodities, including hides, tin, and zinc. Prices of most other basic commodities, such as cotton, wool, lead and steel scrap, showed little change.

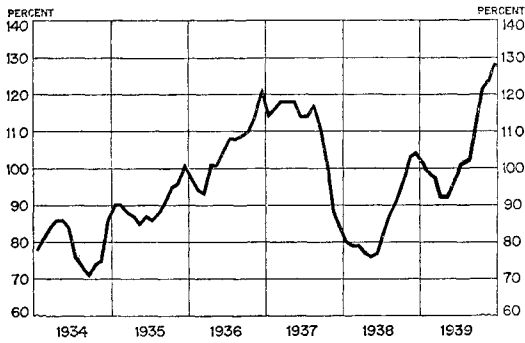
GOVERNMENT SECURITY MARKET

Prices of United States Government securities continued to advance during December and were steady during the first two weeks of January.

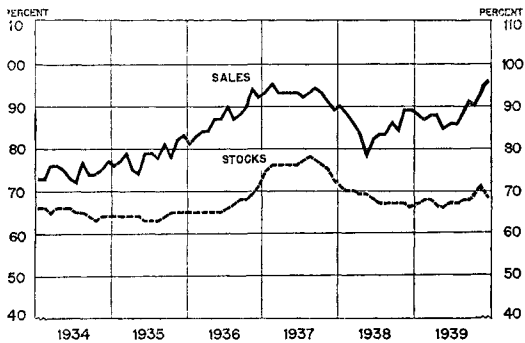
BANK CREDIT

Total loans and investments of reporting member banks in 101 leading cities declined in the four weeks ending January 10, following an increase during the first half of December. These changes reflected largely a temporary rise and a subsequent decline in loans to security brokers and dealers in connection with the Government's flotation of a new issue of bonds. Total holdings of United States Government obligations at city banks showed little net change during the period.

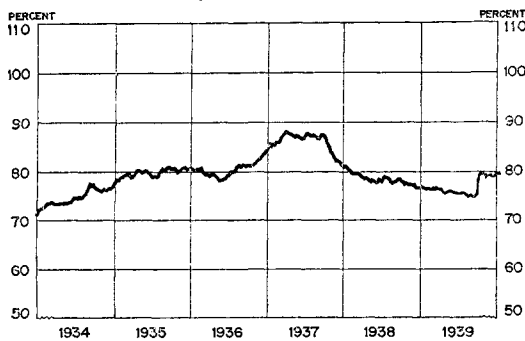
As a result chiefly of further increases in gold stock as well as the post-holiday return of currency from circulation, excess reserves of member banks increased sharply in the four weeks ending January 10.



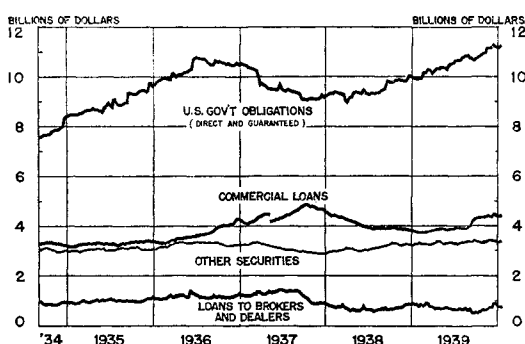
INDUSTRIAL PRODUCTION
Index of physical volume of production, adjusted for seasonal variation, 1923-1925 average=100. By months, January 1934 to December 1939.



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 December 1939.



WHOLESALE PRICES
Index compiled by the United States Bureau of Labor Statistics, 1926=100. By weeks, 1934 to week ending January 13, 1940.



MEMBER BANKS IN 101 LEADING CITIES
Wednesday figures for reporting member banks in 101 leading cities, September 5, 1934, to January 13, 1940. Commercial loans, which include industrial and agricultural loans, represent prior to May 19, 1937, so-called "Other loans" as then reported.